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Is Capitalism the Cause of Wars?

A Reply to Mr. Vishinsky's Charges

By ALEXANDER WILSON

Mr. Wilson refutes Mr. Vishinsky's charges that American capitalism provokes or wants war. Points out U. S. has been heaviest loser in World Wars I and II, and asserts businessmen prefer normal peacetime years to costly postwar inflationary and deflationary adjustments.

Alexander Wilson

In some of his asinine and baseless tirades against this country, Mr. Andrei Y. Vishinsky, Soviet Deputy Foreign Minister, has outspokenly accused American Capitalism of provoking, causing and wanting war besides charging our country with warmongering and imperialism. For this and other vituperative assertions, the excited representative of totalitarian government has not added an iota to his reputed legal abilities by repeating this and other ill-mannered and unfounded charges. Mr. Vishinsky may have in mind the time when some European wars were instigated by professional agents such as Zakharian, the Greek provocateur, who was al-

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Forces Shaping Business Outlook

By NEIL H. JACOBY*

Professor of Finance and Vice-President, University of Chicago

Commenting on President Truman's proposals to combat inflation, Dr. Jacoby points out such measures come too late. Scores Administration's failure to apply concerted efforts to stabilize prices, particularly in preventing inflationary wage increases and in maintaining high levels of Federal spending. Says present price structure is distorted, and fall in farm product prices as well as adjustments in wages and taxes and credit expansion is required. Holds moderate recession from present boom conditions would be helpful in 1948, and urges high taxes and budget surplus as well as reduction in both business and government spending. Sees inflationary danger in scale of exports and credit expansion.

President Truman's opening address to the Special Session of Congress on European aid and price inflation makes interesting reading. He properly describes price inflation as an ominous threat to American prosperity. He asks for broad measures and powers to prevent prices from rising further—restraint on the use of credit, prevention of speculation on commodity exchanges, drives to sell savings bonds, rationing of scarce goods like grain, steel, and transportation service, authority to control prices and to ration basic elements in cost of living and in industry and authority to control wages where necessary to maintain price ceilings.

Neil H. Jacoby

It is not my task to analyze the character of this broad anti-inflation program. I do wish to raise two questions about it:

First, In view of its poor record to date in dealing with inflation,

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*An address by Dr. Jacoby at the American Finance Conference, Chicago, Ill., Nov. 19, 1947.

Our Basic Economic Problems

By HON. JESSE P. WOLCOTT*

U. S. Congressman from Michigan

Chairman of House Banking and Currency Committee, after reviewing "Battle of Ideologies," asserts it should be our objective to find golden mean between extremes of economic philosophies. Says prime problem is inflation, and stresses importance to world of dollar stability. Asserts only sound, solvent, safe America can anchor world to enduring peace. Attacks President's proposals for economic controls, but admits further credit controls, by raising bank reserve requirements, may be granted. Advocates reduction in government spending and concludes our own as well as other nations' economic problems can be solved by hard work, higher production and sound fiscal policies.

The subject of tonight's discussion is timely and exceedingly important. The prosperity, perhaps the safety, of America, the reconstruction of the devastated countries, the stabilization of world currencies and world economies, are largely, if not wholly, dependent upon the early and permanent solution of the basic economic problems of the United States. The peace of the world depends upon a sound, strong America.

Jesse P. Wolcott

Conflicting influences are at work in the world today, as they have been for centuries past. The basic difference in political ideologies springs from the writings of Adam Smith and Karl Marx. The American

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*An address by Representative Wolcott before The Economic Club of New York, New York City, Nov. 20, 1947.

EDITORIAL

As We See It

What To Do About Prices?

Apparently, the political controversies of the months ahead are to center more about domestic prices than about foreign relief or "rehabilitation." Despite all the calamitous predictions as to what is likely to happen in the world if we do not act as a sort of political and financial godfather to most of Europe, many politicians seem to sense that the political dynamite in the situation is chiefly planted in the domestic price sector. Opposition to "interim relief" to Europe in large amounts seems to be more or less non-existent. While the longer term contributions usually referred to as "the Marshall Plan" are from all appearances in a less politically fortunate position, the opposition, one suspects, grows largely out of an uneasy feeling in the breasts of many legislators that such an extensive program must inevitably bring either extensive rationing and price controls or further very substantial increases in the cost of living, or, most likely of all, both of them.

Few in Washington have entirely forgotten what

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Administration Anti-Inflation Program

By JOHN W. SNYDER*
Secretary of the Treasury

Secretary Snyder, supporting President's anti-inflation program, advocates: (1) restoration of controls on installment buying; (2) a new drive to sell government bonds to public; and (3) sizable reduction in government debt. Opposes tax reductions at this time and favors re-enaction of price controls. Says higher interest rates have brought better balances between short and long-term Treasury obligations.

It is of the utmost importance that we extend early aid to the Western European countries in order to assure that people will not go hungry and cold this winter and to assure their continued participation as free nations in the world economy. It is equally necessary that this aid be extended without subjecting our economy to the strain of further inflation.


John W. Snyder

Both of these things are essential if we wish to maintain a national environment and a world environment in which peace and freedom can continue to develop. If we fall short of our goal in foreign aid, our own freedom could be threatened by external forces; and, if we fall short of our goal in controlling inflation, we will be threatened by the danger of economic collapse at home. We must avoid both dangers.

I have been invited to appear before you this morning on one phase of the anti-inflation program. As you know, testimony in support of the emergency program for European assistance has been presented by representatives of the Departments of State, Commerce and Agriculture.

The President outlined three types of measures for the control of inflation; one, measures to relieve monetary pressures; two, measures to channel scarce goods into the most essential uses; and, three, measures to deal directly with specific high prices.

It is to the first of these measures that I will give attention, as other representatives of the Administration have been invited to discuss items two and three.

Monetary Anti-Inflationary Measures

Anti-inflationary measures which may be taken in the monetary field are of course but a segment of the whole program, and could not, by any means, solve the problem alone. But such steps as can be taken when related to those in other fields will of course be helpful in the overall solution.

The President is greatly disturbed in regard to price inflation, which threatens our whole economic structure, and he is convinced that the Congress is equally concerned.

The President has laid special emphasis on voluntary actions on the part of businessmen, labor leaders, farmers, and consumers to hold prices down. Intensified efforts will be continued to obtain voluntary restraint. Certain powers are necessary, however, to fortify the voluntary efforts.

The President has suggested that consideration be given to the following monetary measures (1) that consumer credit control should be restored; (2) some restraint should be placed on inflationary bank credit; (3) legislation should be provided to prevent excessive speculation on the commodity exchanges; (4) intensified activity in the sale of savings bonds.

The last item is the only one of those suggested which comes

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*Statement by Secretary Snyder before the House Banking and Currency Committee, Washington, D. C., Nov. 25, 1947.

Program of Tighter Credit Controls

By MARRINER S. ECCLES*
Chairman, Board of Governors of Federal Reserve System

Asserting correction of inflationary forces is overdue, Chairman Eccles says physical volume of production is not keeping up with growing demands. Lays source of inflation to war financing and postwar credit expansion and holds as practical matter "we cannot put back elaborate harness of wartime controls." Says main reliance now is on fiscal policy and debt reduction, and calls for more authority by Reserve Board to restrict credit, particularly in matter of fixing bank reserves.

You have requested me to testify, I take it, as to what might be done in the monetary and credit field to deal with inflationary forces, which have already gone so far as to cause very serious maladjustments within the economy. Correction is overdue. The longer it is postponed, the more severe will be the inevitable reaction.


Marriner S. Eccles

I am sure this Committee recognizes that a great many factors and forces contributed to the inflationary problem and that there is no easy, simple, or single remedy. We are already in the advanced stages of this disease. It is no longer a question of preventing it, but of moderating so far as possible its ultimate ravages.

At best, monetary and credit policy can have only a supplemental influence in any effective treatment of either inflation or deflation. In considering what can be done so far as monetary and credit action is concerned, it is necessary to make a correct diagnosis of the multiple causes of the situation with which we are now confronted.

Definition of Inflation

What is inflation? It is the condition which exists when effective demand exceeds the overall supply of goods and services. Potential overall demand always exceeds supply. What is lacking is effective demand. We are witnessing effective demand today when individuals and businesses, together with State and local governments, as well as the Federal Government, generally have money which they are trying to spend, bidding for an insufficient supply of goods and services. This effective purchasing power is composed of past savings, current income, or future credit. The savings were largely accumulated during the war years in the form of currency, bank deposits and government securities.

At the end of 1946, individuals and businesses held about $223 billion of such liquid savings, or more than three times the prewar total. Similarly, current national income is at an all-time high level. It is running at a rate of $200 billion a year, or about 2½ times the total for 1940, the highest year prior to the war. It is due to a record high agricultural income, high wages of organized labor and other workers, but not all of them, and unprecedented business profits. This is augmented by a readily available supply of excessively easy credit for consumers' goods of all kinds, for housing, for short and long-term business loans, for state and municipal expenditures, and for foreign credits and grants. The notable exception is loans to buy listed stocks, which are

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*A statement by Chairman Eccles before the Joint Committee on the Economic Report, Washington, D. C., Nov. 25, 1947.

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Danger of an Increase in The Velocity of Circulation

By JOHN H. KUGEL

President, Kugel, Stone & Co., Inc.

Mr. Kugel contends that an unsettled government bond market may offset all deflationary effects of reduction of the national debt. Suggests retention of government bond holdings by banks and individuals as inflationary curb.

Investors have been greatly disturbed by the recent decline in government bonds. The argument that the decline is the natural result of the rise of short term money yields and the yield on corporate bonds, does not answer the question: Where do we go from here?

John H. Kugel

This might be a good time to re-examine the fundamentals of the situation.

(1) As loans create deposits, the expansion of commercial loans is inflationary. Building, mortgage lending and the purchase of corporate bonds by insurance companies and savings banks produce the same result. When their investments outside of government securities are in excess of net premiums or new deposits received, an increase in demand deposits follows. These institutions will sell government securities to get the funds necessary to make the loans. According to the last Treasury Bulletin, investors, other than Federal agencies and commercial banks held 20,334 millions of bank eligible government bonds outside of bills, certificates of indebtedness and notes. The bank eligible bonds do not afford a yield which makes them desirable permanent investments for these institutions and they can be sold to make room for higher yielding corporate bonds.

The effect of such a transaction is to increase the income of all people engaged in the building industry, manufacturing of tools, equipment, etc. The increase of income increases the demand of goods and thereby puts fuel in the fires of inflation. Therefore, the substitution of government bonds, now held by savings banks, Federal savings and loan associations, insurance companies, etc., by mortgages, corporate bonds, etc., is just as inflationary as the making of a commercial loan. To stop inflation we have to stop both.

(2) It is said that an increase of interest rates—in accordance with historic precedents—stops inflation. It is argued that as the price of money goes up the demand for it slackens and with it the loan-deposit spiral. But every practical banker knows that the increase of ½%, 1% or even 2% of the interest rate will not deter a merchant or manufacturer from borrowing money which he can use in a business venture he considers promising. The interest cost is such a small fraction of the cost of doing business that the question of whether a business is profitable or not is not decided by the money rate.

We may recall the experience during and after the first World War. Steadily increasing rates in Liberty Bonds did not stop inflation.

Corporations would be able to continue the sale of their bonds to investors at slowly but steadily rising interest rates. These borrowings create income just as well as loans by commercial banks, and are therefore just as inflationary.

Previous inflations have been ended by the tightening of the money supply rather than by a slackening demand for it. Looking over the statistical data available we see that in previous inflationary periods commercial loans first expanded constantly with only a small increase in the interest rate. At some point the short term interest rate starts to rise steeply and although the rate in the increase of commercial loans remains constant or even slackens, inflation comes to a sudden halt. The increase of interest rates is the result of the tightening supply.

Previous inflations have been stopped because the convertibility of all types of money into gold put an effective brake on the creation of new money by credit. Today, when government bonds are convertible into money and money is not convertible into gold, this brake, in its absolute sense, does not exist. As it is impossible to let the interest rate on government securities rise indefinitely, the Federal Reserve Bank is obliged to support the price of government bonds at some level. On the other hand, the demand for money does not abate with the rise of interest rates.

Dangers of Increased Rates on National Debt

(3) The Treasury must be careful not to increase the carrying charges of the debt. As high coupon bonds mature they may be refunded with short-term paper which—absolutely—carries a lower coupon than the maturing bond although—relatively—it yields more than previously outstanding short-term obligations. Savings in the absolute carrying charge may be used to increase yields on refundings of short-term paper slightly. But the overall charge must not be increased as this would endanger the budget and the most deflationary weapon the Treasury has: Reduction of the outstanding debt.

(4) Reduction of the outstanding debt decreases the money supply directly and immediately. A mere increase in the interest rate, which is not the result of a decline of the money supply, is not deflationary. The increase of the bill rate from ⅜% to more than

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New Money for Old—Hot or Cold?

By JAMES J. QUINN
Investment Counsel

Investment counsel strongly favors Representative Rogers' proposal for recall and alteration of currency's color scheme. Asserts this would be temporarily inflationary, but ultimately very deflationary. Suggests $4 to $10 billion of "hot" money of tax evaders might be recovered as incidental result—enough to launch Marshall Plan and reduce taxes.

The Coming Currency Change — A Recoloring or a Recall?

The proposal of Massachusetts Representative Edith Nourse Rogers to replace our green and black paper currency with a separate color for each denomination may have more to it than meets the eye. At first blush, the sole virtue of the idea would seem to be the greater ease of distinguishing between the various bills. Without imputing to Mrs. Rogers' suggestion any other motivation, it is still true that the replacement of the old with new paper currency at this time carries with it implications of vast importance to many phases of our economic life—not the least of which are the relatively recently developed habits of conducting personal and commercial business transactions and keeping liquid savings in cash amounts of staggering proportions. Before examining the various possibilities, however, it may be helpful, perspectivewise, in gaining an appreciation of the scope and nature of the task that such an alteration in our currency would involve, if the events leading up to the last major change in United States "folding money" are reviewed.

James J. Quinn

The 1929 Currency Alteration

From 1861 until the late 1920's, the size of U. S. paper currency remained the same (7 7/16" by 3⅛"). During that period, the economic development of the country was accompanied by various efforts to tie our money (a) to silver, (b) to gold, (c) to a combination of both, (d) to national bank deposits, and (e) to Treasury bond issues — among many other bases. The resultant hodgepodge currency of the 1920's was a natural outcome of the past haphazard approach to the problem of printing and engraving U. S. paper currency. While the size did not change during the 60-year period, its appearance, especially as regards colors and portraits used, ran the gamut of the entire spectrum on the one hand, and included, on the other, a wide variety of national and local heroes immortalized in print. At one time, there were five separate designs for the $5 bill—the type of variety in design that is an open invitation to counterfeiters, who gave the Secret Service many a busy day. Uniformity, however, was not the only reason for the proposed change. There were others.

First of all, the new size (6 5/16" by 2 11/16") was more convenient to handle. The Philippines had been using the smaller size for years and had lauded its superiority. Since the New Series bill could fit into pocketbooks without folding, the freedom from creasing, necessary with the Old Series, lengthened its life appreciably. The smaller, more uniform, but simpler designs, with their fine engraving, were considerably harder to counterfeit. Additionally, substantial economies in the cost of paper, ink, printing, and especially storing, were important factors. But more decisive than any of these was the 50% increase that the change automatically effected in the plant capacity of the Bureau of Engraving & Printing. The Bureau's building, erected in 1914, had not been designed to cope with the swelling currency demands (jumped 76% from 1917-1926) of post World War I's booming economy. Without the change in size of the bills, a new building extension and a larger printing plant would have been unavoidable.

How the Change Was Put Through

The changeover presented the Treasury with the enormous problems of manufacturing, printing, scheduling and public education. The latter was one of the gravest that Treasury officials had to cope with. A wide variety of difficulties cropped up that had no been anticipated. They ranged all the way from universal public dismay (especially on the part of the banking fraternity) at the prospect of having to transact business with two sizes of currency during the transition period, to derisive remarks about "the new cigar store coupons." Redesigning the various denominations and printing the 900 million separate pieces was a huge task in itself. Nevertheless it was completed well ahead of original expectations. It was the scheduling of the distribution that brought on most of the headaches.

At first, only the one dollar bills were to be issued and those only over an estimated 12-month period. The others were to follow in appropriate order. So well, however, had the designing and printing progressed (including doing an additional last-minute job of an unscheduled redesigning and issuing of new national bank notes, which constituted 15% of all of the currency outstanding), that a general rather than an individual distribution date was decided upon, and even advanced by many months. On July 10, 1929, issuance of the new sized currency in $1-$20 bills was begun. The larger denominations were issued later. No attempt was made to replace at one swoop the entire amount of Old Series bills. Instead the normal procedure of retiring such Old Series bills as came into the banks during everyday transactions was followed. The 4-6-month period estimated for the transition period when both Old Series and New Series would be outstanding was, as it turned out, about right for all practical purposes. At any rate, except for odd stragglers, the outside limit for the complete changeover would hardly have exceeded a year since the number of pieces of the New Series, about 900 million, was approximately equivalent to one year's normal retirements.

Legal Aspects

In view of the ease with which the legal aspects of the 1929 currency change were handled—no legislation was necessary—the reported proposal by Representative Rogers to prepare and submit a bill to Congress on what is essentially the same matter is puzzling. Secretary of the Treasury A. W.

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Letter to Editor:

Defense of Dow Theory

Justin F. Barbour takes exception to Mr. May's "Observations" and explains Dow Theory philosophy. Holds critics misconstrue Dow Theory and scores Cowles Commission's analysis of shortcomings of theory as based upon unwarranted assumptions. Mr. May replies regarding use of Barbour's Dow Theory Service Material

Editor, The Commercial & Financial Chronicle:

As a recognized student of the Dow theory, I wish to make an all inclusive comment on Mr. May's conception of Dow theory, as revealed in his recent series of "Observations." It is this: Mr. May simply does not understand Dow theory. Mr. May sets up his conception of Dow theory, and finds many fallacies in it. *He does not see the wisdom and usefulness of the philosophy of Dow, Hamilton and Rhea.* Apparently he does not understand the copyright laws either, for he has reproduced, with slight modifications, some of our copyrighted material, original of which is enclosed.

It would take too much time and too much space to answer each of Mr. May's criticisms of Dow theory. But for the benefit of those who are interested in the subject, I would like to point out that (1) Dow theory is a successful philosophy for Dow theorists in analyzing and interpreting the stock market and in forecasting the *probable* prevailing major trend and intermediate movements; and, (2) competent Dow theorists are students of the market comparable to successful individuals in other professions who acquire proficiency through constant study, research and experimentation.

Three statements will bear out my contention that Dow theory is a successful philosophy for Dow theorists. The late Robert Rhea made a practice of having his stock market transactions audited, and the audit published. Under date of March 25, 1938, Mr. Rhea published this statement by O. M. Williams, C. P. A.:

"I have audited the accounts of Robert Rhea and those of a corporation and two trusts operated by him and for his benefit. The audit covered all transactions in stocks between Dec. 31, 1928 and March 25, 1938. Dividends were not credited, but commissions and taxes were charged.

"My findings were that on total transactions involving 601,612 shares, a gain of $436.19 was realized for each $100 of loss."

It can be said that this audit reveals little, other than that in the ten-year period covering the greatest percentage decline and advance in the stock market—in the period when the greatest stock market losses were sustained—the net result of Mr. Rhea's trading in a large number of shares resulted in taxable profits equal to 4.36 times his losses. Those who knew Robert Rhea intimately knew that his stock market profits were substantial.

The second point: The writer has had complete supervision of certain funds for periods running from 5 to 14 years. The capital gains of these funds, based on their present valuation (highly liquid), range from about 100% to about 800%, income not included.

The third point: Mr. May in his third article attempted to show, with the use of some of our figures, that a mechanical trading on confirmation of change of major trend would result in missing much of the entire bull market. He is correct as to subnormal bull markets, but incorrect as to normal and abnormal bull markets. In addition, he overlooks these two points: (1) Most of the time competent Dow theorists trade well in advance of the points of confirmation; and, (2) The accumulated profit from trading on confirmations is large.

Over a period of 49 years, the accumulated profit of a theoretical fund entering the market on confirmation of bull markets, and liquidating on confirmation of bear markets, is 4,550%. Put another way, a theoretical investment of $1,000 in the Dow Jones industrial average on June 28, 1897 is now worth $45,502.06. These are intriguing figures for the Dow theory critics for a starter, and it is only a starter.

No one should waste time by saying that trades cannot be made on these prices. In the closing half hour of the market, a diversified list of stocks can be bought, or sold, at closing prices. Income will offset commissions and all of the capital gains taxes in the normal to abnormal bull markets. The following table shows how these results were achieved:

Just to emphasize the point that such cumulative gains are small for Dow theorists, I wish to refer to Robert Rhea's statement of his own accomplishments in relation to the results brought out in a similar table compiled by him. On page 585 of "Dow Theory Comment," mailing No. 199, April 6, 1938, Mr. Rhea wrote:

". . . my own investment funds, even after income taxes, have increased more since 1920 than those employed in the above theoretical calculation during the same period."

The following is my statement of stock market results achieved through the application of Dow theory:

"All of my management accounts have appreciated many times the comparable appreciation of this theoretical fund over the years in which I have been in business."

The Genesis of Dow Theory

Dow theory derives its name from Charles H. Dow, the founder and first editor of the "Wall Street Journal," whose observations of the movements of the stock mar-

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The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Business barometers for the past week indicated slight and varied changes in industrial production for the country at large. The output of practically all types of goods was very large and orders for most products as in past weeks continued on the increase.

Employment held close to peak levels with the demand for skilled workers still remaining to be gratified. With respect to raw materials some manufacturers have reported a noticeable improvement in the availability of some items.

Producers of various types of industrial machinery and equipment reported a high current output. Some improvement continued to be noted in the production of farm machinery.

Apparel manufactures increased somewhat with orders for most types of clothing very large. Textile production was steady and high with substantial order backlogs to sustain it.

* * * *

In the field of civil engineering, construction totalled $100,930,000 the past week, with volume 37% below the previous week but 30% above the corresponding week a year ago. Private construction amounted to $54,084,000 and public construction, $46,846,000.

* * * *

Fear of government controls over our national economy springing from President Truman's request for such power were expressed by some segments of business and industry the past week, but according to "Business Week" magazine, in its current editorial comment, it stated:

"You can write off President Truman's demand for consumer rationing and price controls as an exercise in pure politics, even the speculators aren't taking it seriously. There isn't one chance in a thousand that Congress will approve a new pocket-edition OPA. And even if it should, the Administration couldn't get prices under control just by tacking on a ceiling here and a ceiling there."

* * * *

Reviewing the condition of retail and wholesale trade it was noted that retail volume in the week ended on Wednesday last was moderately above the level of the preceding week and remained well in excess of that of the corresponding week a year ago. Seasonal promotions were prevalent and helped to stimulate consumer interest in holiday merchandise. The buying of gifts increased noticeably and toys attracted considerable interest.

A moderate rise in wholesale volume occurred in the week and over the corresponding week a year ago. Retailers purchased large stocks of most types of merchandise in anticipation of a brisk holiday season. The supply of most articles was plentiful and deliveries were generally prompt.

STEEL OPERATIONS SCHEDULED AT 0.7% BELOW PREVIOUS WEEK'S OUTPUT

Despite raw material shortages and time consumed in repairing and rehabilitating equipment, steel ingot output in 1947 will be 34½% greater than the previous peacetime peak in 1929, 61% greater than the prewar year of 1939 and about 30% higher than the year 1940 when the United States was shipping large amount of metal to the Allies, according to "The Iron Age," national metalworking weekly.

There is every indication that the total steel ingot output this year will amount to 85 million net tons, a figure only 5.1% below the all-time high during the war year of 1944 when steelmakers turned out 89.6 million tons of ingots.

There is nothing in the picture now to prevent the 1947 record from being bettered in 1948. During the next 12 months some new ingot capacity will be installed and finishing capacity will be expanded.

Unfortunately for the steel industry, says the magazine, the temporary extreme tightness in steel supplies this month and expected in December is playing into the hands of those who are attempting to place rigid allocation controls over domestic steel output. Currently, pressure for steel deliveries from those consumers who are unable to keep their own production schedules at peak levels is the strongest since war days. Furthermore, the gray market is far more active than the black market was during the war and net prices are higher.

Conversion activity involving the processing of ingots and semi-finished steel by one or more steel companies is now at an all-time peak. Yet practically all of this stringency which has been superimposed upon a strong normal postwar tight market, "The Iron Age" adds, has been due to loss of production in the industry this year through no fault of steelmakers. Practically all steel firms have been

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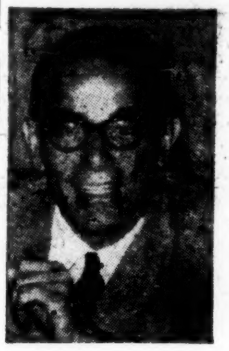
Observations . . . .

By A. WILFRED MAY

THE PERILS OF PREDICTION—Stock Market Pitfalls

(Seventh of a series on investing problems)

Bernard Faye, French author, has said: *"In statistics the American has found a substitute for ideas, enabling him to dispense with both wisdom and beauty."* Although this may be exaggeration, it is quite true that we are prone to forget that while statistics are knowledge, their proper use requires real wisdom.



A. Wilfred May

An important cause of failure in the attempt to forecast the behavior of the stock market as a whole is the temptation to over-use today's unprecedentedly high quantity and quality of statistics; that is, to apply them to phenomena to which they are not at all appropriate. Too often in lieu of permitting their confinement to their rightful function as an instrument, the passion for statistics leads to coupling them with factors which are not reducible to statistical measurement, and to lose sight of the crucial importance of the human behavior elements, which are incalculable as to direction as well as extent. And all too often when applied to the market place, *"statistics are used as that branch of mathematical science which makes it possible to proceed with precision from an arbitrary assumption to a foregone conclusion."*

Winning the Contest, Losing the Prize

A specific reason for the abortiveness of predictions about "the market" is the persistent divergence of its behavior from expectations warranted by the economic factors—resulting in rightness in guessing events, wrongness on the market. This has been perfectly demonstrated during the past two years. The decline in the stock market that began in mid-1946 has not been followed by a discernible business recession, general corporate earnings decline, or corresponding behavior of the economic indices. So speculators acting on their winning entries in guessing contests on the Federal Reserve Board's index of industrial activity, national income, etc., would still have lost some part of their shirts in the perverse stock market.

Similarly, our great bull market of the 1920s, the most violent on record, acted wholly without correlation to the concurrent "economic" events of the period. For example between 1923 and 1929 the price of stocks shot up by over 300%, whereas the output of non-durable consumption goods advanced by only 24% and the volume of production of finished goods (Index of the National Bureau of Economic Research) rose 28%. And a net decline actually occurred in the Bureau of Labor Statistics' indexes of the prices of raw materials, semi-finished and finished goods. Even corporate earnings showed the same divergence from stock market action, graphically reflected in price-earnings ratios in some cases as fantastically high as 100 to 1. So then too a correct appraisal of the logical economic factors proved to be disastrous for purposes of appraising seven years of stock prices.

One reason for this, which because of its comparatively new emergence is importance to recognize, is the influence of government management and controls. Monetary management began in earnest in that "New Era," transforming the stock market from its traditional role of barometer to a thermometer resoundingly registering the effects of the avalanche (as measured in that early period) of Federal Reserve credit that was being pumped out through the open-market operations of the Federal Reserve System—a new and hence unrecognized manifestation of unpredictable management.

The "Managed" Market of the Mid-1930s

Likewise in the 1936-1937 years which concluded the 4½-year bull market that had started in 1933, stocks were priced at wide variance from the economic factors. That the high prices and active markets of that time were not caused by a flight of capital into equities through fear of inflation is shown by the fact that bond prices remained at their peak level attained since the turn of the century, and commodity prices had not risen recently. Nor was that market rise, as it had been in 1929, financed by brokers' loans or direct bank loans on securities. Actually that bull market, at least in its extent, was caused by the Federal Government's aggressive deficit-financing policies of borrowing and spending, with expansion of bank deposits of money-seeking investment, and its managed reduction of the ruling interest rate. Subsequently in the Fall of 1937, when this money-expanding policy was unexpectedly halted, the bull market had its demise.

This uncertain "extrinsic" market element of government controls has always, of course, been a wartime concomitant. But since V-J Day we have been forced to realize that the imposition of central management and interferences constitute not only a wartime factor, nor even only a component of a mere "armament economy," but, as possibly now, a crucial factor likely to be imposed whenever our executive and legislative branches deem there is an "emergency"—because of "inflation," international crisis, etc., etc., etc.

Broadfoot Sales Mgr. For Hayden, Stone Co.

Hayden, Stone & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, announces that Hibbard E. Broadfoot is now associated with the firm as retail sales manager of the New York office. Mr. Broadfoot was formerly retail sales manager for E. W. Clucas & Co.,

The company also announces that the following have become associated with the investment department of the firm's New York office as registered representatives: S. A. Alasheieff, Frank L. Childs, Frank J. Daly, Ernest R. Grauer, Eugene Hodenpyl, Norton Le Bourveau and F. Raymond Shaw.

Shillinglaw, Johannes Elected Vice Pres.

CHICAGO, ILL. — Logan Shillinglaw and Harold W. Johannes have been appointed Vice Presidents of Shillinglaw, Bolger & Co., 120 South La Salle Street, members of the Chicago Stock Exchange, it is announced by David L. Shillinglaw, President. They have been associated with the firm for the past five years and have been identified with the investment business in Chicago for many years.

Russell G. Talbot Opens Own Firm in Buffalo

BUFFALO, N. Y. — Russell G. Talbot is engaging in the securities business from offices in the White Building, under the firm name of Talbot Co. In the past he was with H. B. Dennison & Co. and Barrett Herrick & Co.

Restoration of Europe Essential

By EUGENE MEYER*

Chairman of the Board, The Washington Post; Former World Bank President

Prominent financier, in reporting on trip through Western Europe, points out basic economic difficulty is lack of adequate food and economic incentives. Says America, in role of world leadership, must formulate a program of foreign assistance. Points out, despite difficulties, substantial steps have been taken in European recovery, and backs up Truman proposals, even though not "a gilt edge investment."

I am pleased to have the opportunity to pass on to you some of my observations and reflections about my recent trip to Europe. I went there, I think, with the same questions in my mind that have been plaguing millions of other Americans who have watched the European situation grow more troubled, more menacing, day by day and season by season. As a citizen, and also as one with a share of the responsibility for producing a responsible and informed newspaper, I decided to reconnoiter the field in person. I wanted to put my questions directly to the men and the groups who were in the best position to know the facts.

Eugene Meyer

The questions I had in mind were the obvious ones, but no less important for being obvious. They were the questions which our Senators and Representatives and which you, yourselves, have been asking as you watched European nations struggle out of the desolation of war and as you waited, in vain, for them to give evidence of a restoration of economic health and political stability.

What was at the root of the progressive deterioration of the financial situation in England, France, Italy and other Western European countries? Why had their economic life not made more progress in the return to the prewar tempo? What had happened to the pattern of trade that once supplied Western Europe with food and Eastern Europe with manufactures?

Had the European peoples lost the habit of working? If they were hungry, was it their own fault? If we aided them, would it be money down the drain or was there a chance—was there, in fact, the will—to use American help as a means to permit them to help themselves?

These were some of the economic questions.

The political question was equally complex: How was Europe reacting to the daily increasing aggression of our wartime ally, the Great Bear which we call Russia?

I wish I could tell you that I brought back pat answers to these questions. I wish, indeed, that there could be pat answers which some better student of the questions than I could discover. Unfortunately, world problems, economic or political, do not lend themselves to precise and simple solutions.

Happily, however, there are to be seen in Europe certain outstanding facts, vivid enough for a reading even on the run, clear enough so their meaning cannot be misunderstood. They are, also the most significant and meaningful facts for an understanding of the European problems. And they are the most helpful guideposts to us, in framing our decisions on plans to assist Europe.

It is these facts which I want to discuss with you. I have spoken of them to other groups. Since neither the facts nor my conclusions about them have changed, I must, if you permit, speak of them somewhat in the same terms that I have used before.

New Role of America

First, I would like to paint a little background of my own thinking before I went to Europe. I carried with me a preconception, if you will, and I brought it back intact—indeed, strengthened. It relates to our own role in world affairs. It is the thought that America has succeeded to the

(Continued on page 20)

*An address by Mr. Meyer before the Advertising Club, Washington, D. C., Nov. 18, 1947.

Current Topics in Wall Street

By JOACHIM STRESEMANN

After discussing "pros" and "cons" of the Business Cycle Theory, writer contends today we are faced with a set of conflicting developments which tend to pull the economy in different directions. Cites as factors: (1) lack of equilibrium in wages and prices; (2) uncertainties regarding implementation of Marshall Plan; and (3) impediments in strides of construction industry. Holds present prosperity is not necessarily more temporary than previous similar periods, and therefore depression seems far away.

Business Forecasting

Forecasting tomorrow's business is quite like forecasting tomorrow's weather. You have good reasons to assume you are right but there is always that gust of wind from Greenland that may upset your calculation. Yet even if it rains all Sunday, though the weekend was supposed to be sunny, people come right back Monday and ask again: "What weather will we have?" "What is business going to do?"

Joachim Stresemann

In 1945 the best opinion of some students of economics was that there would be large unemployment in the middle of 1946. Nothing of the sort happened. Since the middle of 1946 a business recession has been widely predicted for 1947. We may see a shrinkage of business activity in 1948 but 1947 is almost over and no recession has appeared so far. What we have had — or rather begun to have again—was a reshuffling of activity between sectors of business but such a change is natural. There is no fixed state of industrial production which is attained one day and remains stabilized from there on ever after. There is no status quo. Business is a living organism and there is no doubt that the number of umbrellas manufactured in 1957 will be different from the number manufactured in 1947.

If business forecasting has proven so difficult and often unsatisfactory, the question arises as to why there is so much demand for it and also why so many intelligent people insist on gambling their reputation every day on telling us exactly what is going to happen. The explanation is simple. No matter how hazardous the guess, a guess has to be made by everyone who wants to take any action in any walk of life. The man who buys a dinner jacket expects to be invited to dinner some time but he may be wrong. The manufacturer who decides to produce 1,000 television sets expects to sell at least 900. but if his competitor brings out a more attractive set, he may not sell any. Similarly, the investor has to rely on experienced advice as to the intrinsic value of securities and their prospects. Consequently, his advisors have to endeavor to forecast the future of a complete set of factors all interacting on each other.

"Fashions" in Business Thinking

No one can deny that the size of industrial production or the level of commodity prices are important criteria in determining the business outlook. So are innumerable other factors, i. e., the trend of consumer expenditures. On what is the average wage earner spending his dollar? On what is he spending his "extra" dollar, i. e., the dollar he keeps after buying food, etc., and paying his rent? Some economic analysts look mainly at statistics such as the above. Others, and not less intelligent ones, also look at race track betting statistics, theatre attendance and similar figures not generally accepted into "economic society." It can be observed, though, that from time to time certain subjects seem to dominate the field of discussion and, in proportion to the publicity which they receive, the outside observer is apt to get the impression that his life and the fate of the entire universe depend on the answer to some problem which only a few months earlier did not seem to bother anyone in particular.

Within the past 12 months the business community has worried successively and intensely over such problems as inventories, labor relations, inflation, deflation, and a host of other problems. Recently the so-called "world shortage of dollars" has begun to claim head billing. All these discussions are, of course, based on real causes but the interesting fact is that in business the emphasis on certain problems is apt to shift continuously and what seems a vital problem today may be almost completely forgotten tomorrow.

The same applies to business psychology and theory. Right now there is considerable interest in the study of the importance of cycles with regard to fluctuations in business activity. The subject has been explained in a clear and highly restrained manner by Edward R. Dewey, the co-

(Continued on page 28)

From Washington Ahead of the News

By CARLISLE BARGERON

Senator Styles Bridges of New Hampshire, who is an internationalist and who, therefore cannot be accused of not having a broad mind and not being alive to progress and to our having become a world leader, and who indeed, as a result, has enjoyed that friendly publicity which our intelligentsia gives to such a ripened intellect, is nevertheless annoying that crowd and it may be that he is by way of receiving the same treatment as Colonel Lindbergh, Bob La Follette and Burton K. Wheeler. He was enjoying the same friendly treatment as that broad thinker, global understanding Arthur Vandenberg.

Carlisle Bargeron

Bridges, as Chairman of the Senate Appropriations Committee, made a trip to Europe this year and being an indefatigable worker who goes to cocktail parties only when he has to, he came back with an awful lot of information. He made a couple of statements over there which seemed to make sense but which annoyed some of our Eastern editors no end.

One such was when he said in Paris that we certainly wanted to help France but that damnit, the French had to do some work themselves. One Eastern editor described this as most inopportune. It was a fact the French ought to do this, said the editor, and it would have been all right if Bridges had made his statement here. But to have made it over there in the presence of Frenchmen, where they might hear it, presumably, put us in the light of telling foreigners what to do. In this way we play into the hands of the Communists who charge us with imperialism.

But what is annoying the intelligentsia about Bridges mostly is that he came back with this poser, not exactly new, but he has raised it in a way to receive considerable public attention:

Why in the name of Heaven is the Administration insisting upon more money for the occupation and relief of Germany while at the same time going about dismantling German plants so Russia can cart them off.

This is the most embarrassing problem with which our statesmen are confronted. We are being asked to appropriate additional billions to fight the spread of Communism. In Germany we are joining with the Russians, the French and the British to dismantle German plants which Russia takes.

There now seems to be general agreement among our public utterers that the economy of Europe is dependent upon the restoral of German industry. It is utterly disgusting that this realization should come so late and after so much cost, and certainly the statesmen who were responsible for it should be made to pay instead of having the Gallup Poll report periodically that they are still preferred by the American people to run their foreign and domestic affairs.

These statesmen having now come to this realization, the American people must pay still further for this restoral. These statesmen express bitterness towards the Morgenthau pastoralization scheme and will tell you that he is now a completely repudiated man. Yet, they were right in on, they were parcel and part of that scheme at the time.

However, that is water over the dam, they say. The German economy must now be restored at a cost. They have spread the information that the Morgenthau plan has been completely abandoned.

Senator Bridges comes back and says the plants are still being dismantled. Our policy may be changed and it is changed to the extent that we are not now trying to pastoralize Germany. Instead, we are bent now upon getting her back to her industrial feet.

But her plants are still being dismantled, and carted off by Russia who, if she thinks she can keep us from sending billions over here to head her off, doesn't realize what a determined bunch of fools we can be.

When Bridges poses such a question as this he is being unrealistic and maybe he was never the broad-minded, statesmanlike fellow which the Eastern intelligentsia first thought he was. A couple of editors of this class have been unable to hide their disgust.

He must realize, they have said with irritation, that while it is a fact that German industry must be restored and that we have, therefore, departed from the pastoralization program, nevertheless it must be remembered that we are pledged to destroy Germany's war potential forever. Senator Bridges should therefore keep his mouth shut about the plants being destroyed because they are the potential war plants and Senator Bridges is not in a position to know what is a potential war plant and what is not. This must be left to the experts.

In other words, our officials in Germany are assisting in tearing down plants and American taxpayers are being asked to put up more. One explanation is that this is a part of the Potsdam agreement and we can't get out of letting Russia have this machinery.

Bridges, the non-expert, cites that a type of plants being dismantled are glass plants when one of the greatest needs in Germany is glass. I should like to have an expert tell the difference between a non-potential war plant and a potential one. Even a sausage factory is a potential war plant. General Motors, U. S. Steel, Westinghouse, etc. were our war plants; darned few, in fact, that were not.

Two With Allyn & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — James G. O'Donohue and Donald E. Radcliffe have become associated with A. C. Allyn and Company, 100 West Monroe Street. Mr. O'Donohue was previously with M. B. Vick & Co.

Prosperity or Depression in 1948?

By RAYMOND RODGERS*

Professor of Banking, New York University

Dr. Rodgers points to errors in 1947 business soothsaying, and ascribes causes of errors to managed money, managed public debt and a largely managed economy. Predicts, however, economic forces will prevail, and says we face either a business readjustment or a new turn of corkscrew of inflation. Foresees no depression in 1948 but warns if inflationary policies persist, day of reckoning is coming.

Economic developments during 1947 should end all business soothsaying; never have the prophets been so wrong. The "best advertised depression" wasn't even a flash in the pan — it just wasn't! Onward and ever upward the indexes moved, while the economists viewed with more and more alarm.

Raymond Rodgers

Clearly, a business readjustment was due in 1947. Such a readjustment was needed after the stresses and distortions of war. Psychological factors pointed to a readjustment. International recovery promised to reduce the export demand. On the homefront, economic factors of supply and demand were heading for an equilibrium which would permit markets to stabilize on a more realistic basis. The forecasters, and business men alike, were unanimous in agreeing that a recession was inevitable. The only difference of opinion was on how long and how much recession to expect.

Why did all these predictions fail?

We Have a Managed Economy

The answer is that nationally we have a managed money, a managed public debt, and, to a great extent, a managed economy.

While, in the long run, economic forces will prevail, management can play the controlling role in the shorter periods. To put it more specifically, who could have foreseen the extraordinarily favorable settlement granted John L. Lewis and his miners? This settlement not only increased costs all along the line, it set in motion another turn of the wage-price inflation spiral in other industries. Or, in the field of food, what economist could possibly foresee the crop failure in Europe? It was caused by too little rain—an act of God. Likewise, the short corn crop in the United States could not be foreseen by mortal man. It was caused by too much rain—an act of God.

But when we, notwithstanding our short corn crop, decide to feed Europe, that is an act of management which affects everything in the country. Our determination to rehabilitate the non-communist peoples of Europe, regardless of the effects on our domestic economy, is based on political expediency. Domestic considerations are brushed aside. Our enormous exports, especially of grains, sharply increased the price of food, the most basic cost element in our collective bargaining economy. Under such pressure, higher wages, higher prices, and another round in the spiral of inflation were inevitable, even though economic forces were working toward a thorough-going adjustment of prices, costs, and supply and demand.

The forecasters cannot properly be blamed for the failure of their prognostications. No one can foresee acts of God. No one can foretell what government "managers" will do under such circumstances.

On Crest of Business Boom

There is one thing of which we can be certain. We are riding the crest of the wave of the greatest business boom the world has ever known. The $64 question is, "What next?" As the boys said in our war, "It's Heaven, Hell, or Hoboken." But we must try to determine which and when.

As I see it, we are at a very critical point: In 1948, we face either a business readjustment or another turn of the corkscrew of inflation. Now, don't laugh—that's not an economic straddle—not an economist's hedge. I am on public record since early 1943 as saying that we would avoid runaway price inflation in the United States. I am on record that we would have a business readjustment or mild recession in the third quarter of this year. I still earnestly hope that we can have a readjustment which will remove the accumulated stresses and strains of our price structure, rather than wait until we have a serious breakdown of the economic machine. There is still a chance that the Special Session of Congress, or the Administration, will take action which will permit a self-rectification of some of the current abnormalities and uneconomic practices in business. We missed a good opportunity to start our economic house-cleaning last May. We shall have another good opportunity after the Christmas buying is over. A buyers' resistance caused, primarily, by the inability of many people to pay present prices, may set in. Such a development would force price adjustments in many lines, particularly soft goods lines; and conceivably could bring the wage-price spiral to an end. While such an adjustment could have little effect on the steel, iron, coal, oil, railroad equipment, farm equipment, and the heavy machinery industries in general, and thus could not be too serious, it would have a constructive and desirable effect on the cost of living component in production costs. In the short period of time, the readjustment would run its course and the economy would be on a much sounder basis.

While I still hope for a readjustment, the inflationary developments of the last few weeks cannot be lightly brushed aside. In particular, the cost of living has continued to rise, which, together with the fact that corporation profits are greater than anticipated, may force corporations to grant substantial increases in wages. Certainly, the union leaders will make such demands as their contracts expire during the coming months. As I said before, most corporations are already vulnerable because of increased profits; yet, notwithstanding sharp increases in profits, many of them have continued to raise prices, which further strengthens the demands of labor.

The inflationary effects of the government's policy of purchasing enormous quantities of grains and other foods in the open market, are also well known to you.

If this inflationary force is of substantial proportions, it may prevent a 1948 general readjustment from a sellers' to a buyers' market. Instead of the cost of living levelling off, we may suffer an inflationary boom which ultimately will culminate in a sharp break in business activity, accompanied by large scale unemployment and governmental interference of pump-priming, or worse, character. This talk is getting so long, that I recall the old Baptist preacher down home, who said he was sorry his sermon would only be five minutes long one morning—his dog ate the rest of it. After the sermon a man came up and said, "I am not a member of your church, but if that dog has puppies, I'd like one for my preacher."

No Depression in 1948

One thing is certain: There will be no depression in 1948. As I said before, what we face is either a moderate recession or another

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*Remarks by Professor Rodgers before Merchants Advisory Council, School of Retailing, New York University, New York City, Nov. 20, 1947.

Public Utility Securities

American Power & Light

American Power & Light, sub-holding company in the Electric Bond & Share System, has interests in operating subsidiaries scattered over a wide geographical area from Florida to the Pacific Coast, so that some of these subsidiaries will have to be disposed of before the system can conform to the geographical requirements of the Utility Holding Company Act. A subholding company (Texas Utilities Company) has, however, been set up to take over the interests in three Texas companies—Dallas Power & Light, Texas Electric Service and Texas Power & Light; and it is possible that this group might be retained under the "grandfather clause," though it seems rather unlikely that this would be attempted. The northwestern group, as explained later, is also being concentrated.

In 1941 American Power & Light filed a plan for issuing new common stock to the preferred stockholders, but without making definite provision for the common stock. In November 1943 a more definite plan was filed allocating new common stock to old preferred and common on a 90-10% basis. The usual hearings were held but no action was taken. In September 1946 a third plan was filed with the Commission and hearings were held during October-February, after which interest again lapsed. Under this plan the company proposed to retire the $6 preferred at 150 and the $5 preferred at 137 (compared with par and arrears of $143.57 and $136.31, respectively). Payment would be made either in stocks of certain subsidiary companies (the Florida, Kansas Minnesota, Montana and Texas companies) or in cash. 15% of these stocks would be sold to the public to establish a market, and the remaining 85% would be offered to preferred stockholders at the net price received in the public offering plus 5% allowance for underwriters' fees (however, part of the latter stock would also be sold if not taken in exchange by the preferred).

Another plan was filed last December by a committee representing the common stockholders under which all assets would be allocated 70.5% to the preferred and 29.5% to the common (a year's dividends would also be given to the preferred stock). Under both the 1946 plans, American would have been kept alive as a holding company for the northwestern group.

All these plans have apparently gone "by the board" and a new series now seem to be starting. Last week Mr. H. Lane Ogle, holder of both preferred and common stocks, proposed the direct allocation of portfolio holdings as follows: Preferred stockholders would receive the stocks of the best subsidiaries—Texas Utilities Florida Power & Light, Kansas Gas & Electric and Montana Power. Public holders of the common stock would receive the northwestern stocks—Northwestern Electric, Pacific Power & Light, Washington Water Power and Portland Gas & Coke. The first two of these companies have now been merged and the stock of the merger company will probably be transferred to Washington Water Power, putting the three stocks in one "bundle."

The management of American Power & Light has begun work on a new management plan which may be filed within a few weeks. It seems probable that this plan will also use the allocation method, though there is no indication as yet whether specific stocks will be allocated as in the Ogle plan, all stocks allocated on a uniform percentage basis, or some third method developed. Because of the decline in the market it is now becoming less desirable to sell blocks of stock, and in any event the SEC now seems to follow "investment value" rather than market value in assigning packages of securities.

It appears unlikely that the preferred stock will fare as well in the new plan as it did in the proposed 1946 plan, since under present conditions no part of the call price would probably be allowed, and even the claim for par and arrears might be cut down in order to work out some value for the common stock (which would probably be "under water" if last year's plan should be consummated on the basis of present lower earnings and reduced price-earnings ratios).

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Insurance and Bank Stock Evaluator—Comparative analysis of 80 insurance companies and 38 banks—Dempsey-Tegeler & Co., 210 West Seventh Street, Los Angeles 14, Calif.

Railroad Developments of the Week—Current developments in the industry—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a comparative tabulation of Public Utility Bonds.

Special Situation—Analysis of 35-year-old New England company with large dividend accumulation—Raymond & Co., 148 State Street, Boston 9, Mass.

Steel, The Master Metal—Circular on the industry and stocks of several low-priced speculative steel companies—Mercer Hicks & Co., 150 Broadway, New York 7, N. Y.

Three Stocks With A Future—Memorandum—C. D. Robbins & Co., 810 Broad Street, Newark 2, N. J.

* * *

Aspinook Corp.—Special Report—Ward & Co., 120 Broadway, New York 5, N. Y.

Also available is a special report on **Portsmouth Steel.**

Borg-Warner Corporation—Review of speculative type common stock—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Also available is an appraisal of **American & Foreign Power Co., Inc.,** and a review of **General Steel Castings.**

Cannon Mills Company—Circular on outlook—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Cleveland-Cliffs Iron Company—Memorandum in current issue of **"The Public Utility Stock Guide"**—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Also available is a card memorandum on **Morgan Engineering Company.**

Coca-Cola Company—Circular on 3rd quarter report—Clement A. Evans & Co., Inc., First National Bank Building, Atlanta, Ga.

Franklin County Coal Corp.—Late information—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Gisholt Machine Company—Analysis—Arnhold & S. Bleichroeder, Inc., 30 Broad Street, New York 4, N. Y.

Graham-Paige Motors Corp.—Analysis—Seligman, Lubetkin & Co., 41 Broad Street, New York 4 New York.

Also available are analyses of **Foundation Co., Wellman Engineering,** and **Tennessee Products & Chemical.**

Long-Bell Lumber Company—Revised analysis for dealers only—Comstock & Co, 231 S. La Salle Street, Chicago 4, Ill.

Louisville Railway Company—Memorandum—The Bankers Bond Co., Inc., 237 South Fifth Street Louisville 2, Ky.

Also available is a circular on **Myer-Bridges Co.**

Michigan Steel Casting Co.—Analysis—Adams & Co., 105 West Adams Street, Chicago 3, Ill.

Motorola, Inc.—Analysis—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Pacific Speedway Enterprises, Inc.—Descriptive brochure—Hopkins, Harbach & Co., 609 South Grand Avenue, Los Angeles 14, Calif.

Portland General Electric Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Portsmouth Steel Corp.—Data—Buckley Brothers, 1240 Walnut Street, Philadelphia 2, Pa.

Also available is late information on **Eastern Corp.** and **Gruen Watch.**

Public National Bank & Trust Co.—Third quarter analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Pullman, Inc.—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Utica & Mohawk Cotton Mills Inc.—Circular—Mohawk Valley Investing Co., Inc., 238 Genesee Street, Utica 2, N. Y.

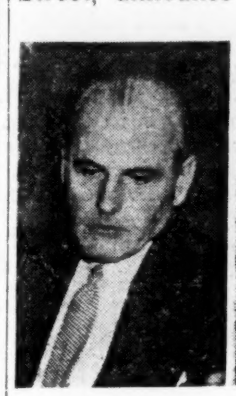
Two With Ed. E. Mathews

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Lionel O. Dansereau and David M. Stanley have joined the staff of Edward E. Mathews Co., 53 State Street.

Bloom and Belt Join Culbertson, Olsen

CHICAGO, ILL. — Culbertson, Olsen & Co., 125 South La Salle Street, announce that Ralph M.



Ralph Bloom

Robert K. Belt

Bloom is now associated with them as Manager of the trading department and Robert K. Belt is assistant in the same department. Both were formerly with Thomas E. King & Co.

Gordon Now With Nat'l Securities Corp.

SEATTLE, WASH. — Paul H. Gordon has become associated with the National Securities Corporation, 1425 Fourth Avenue, in the trading department. He was formerly with the First Washington Corporation in the trading department and prior thereto with Harris, Lamoreux & Norris and Dagg & Co. In the past he conducted his own investment business in Seattle.

Paul H. Gordon

COMING EVENTS

In Investment Field

Nov. 30-Dec. 5, 1947 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dec. 2, 1947 (Seattle, Wash.)
Bond Traders Club of Seattle Christmas Party at the Olympic Hotel, 6 p.m.

Dec. 5, 1947 (San Francisco, Calif.)
San Francisco Bond Traders Association Christmas Party and installation of officers.

Dec. 15, 1947 (Cincinnati, Ohio)
Cincinnati Stock and Bond Club Annual Christmas Party at the Hotel Sinton.

March 5, 1948 (New York City)
New York Security Dealers Association 22nd Annual Dinner at the Waldorf Astoria.

Nov. 15-18, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

With E. M. Adams & Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE.—Robert S. Carpenter has been added to the staff of E. M. Adams & Co., American Bank Building.

Joins A. M. Kidder Staff

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA. — Richard E. Bright has become connected with A. M. Kidder & Co., Alfred I. du Pont Building.

Consumer Credit and Business Trends

By VINCENT YAGER*

Vice-President, Harris Trust and Savings Bank, Chicago, Ill.

Stressing value of instalment credit as thrift device, Chicago banker holds it is the responsibility of banks and finance companies to adhere to sound credit terms as laid down by American Bankers Association. Warns against excessive competition among banks and finance companies, and asserts substantial relaxation of credit terms would induce further government regulations.

The subject assigned to me is to be a part of a panel on "Consumer Credit and Business Trends," and my particular part is to say something about terms, down payments, and the attitude of credit line banks in view of the current situation. Please understand that I am speaking from the problem of credit line banks rather than from that of the many thousands of banks who themselves engage in the consumer credit business.

There may be a few die-hards who still feel that instalment selling does not, or should not, have a real place in our economic situation. There are those who say that it does not increase the demand for a commodity, but simply advances the time when the demand becomes effective; that it cannot result in any increase in purchasing power. That argument rests on the assumption that the income of every community remains constant from year to year, and that therefore, there cannot be any increase in the general fund available for purchasing power. We know that national income is not constant, and that every effort is being bent to keep purchasing power high, even though there are contra-currents endeavoring to keep down expansion by other means than reducing national income, I have not heard anyone advocate reduction in our national income as the method of curing inflation.

The American people have learned that a self-imposed system of systematic saving enables them to make headway in their personal affairs, and that is just exactly what instalment credit is—it forces the individual to save money for some article or purpose for which he has dedicated himself. It has always seemed strange to me that certain individuals feel that it is all right to purchase a house or a piano or some other things on instalments, whereas it is not proper to purchase other articles on an instalment basis. Certainly there is a line somewhere, and undoubtedly there are things that should not be purchased on an instalment basis—obviously, those which wear out or become valueless before the payments have been completed.

Bank Credit Situation

Possibly I should premise my remarks about terms and downpayments with some reference to the current situation with bank credit, because if credit were unusually free and loans were very low it might well be that banks would close their eyes in some part to off-standard terms in a different cycle, where risks might be less, and it is in such a cycle that there is a great excess of bank credit and a low ratio of loans to capital and deposits, so that possibly greater risks might be taken. However, I am sure that you are all familiar with the current situation.

I have figures from the Federal Reserve Bank covering reporting member banks in 95 leading cities of the United States. It is obviously in these centers that the major portion of your companies secure their credit. The figures are as of Nov. 5, 1947, and the comparable date in 1946. In that period of time total deposits declined 0.8 of 1%, while loans increased 20%. This has resulted in many things, including increases in interest rates, etc. I need only point out that the government has just announced that the new certificates, running for 13 months, will pay 1⅛%. It was not so long ago that the certificates yielded ⅞%. Coupled with this decline in deposits and increase in loans is a very considerable demand on the part of all industry, not alone the finance industry, for substantial, increased credit. I doubt if there is one among you that has not asked for increases in the lines of credit in the last year.

Elimination of Regulation W

As we are all aware, Regulation W, which has been in effect for about six years, has now been eliminated. It therefore becomes incumbent upon banks and finance companies to hold the line to keep terms sound, to avoid vicious competition, and to keep the picture wholesome. There are many reasons for this, and I think I should define a few of them.

First—I am sure that you are all familiar with the standard terms as adopted by the American Bankers Association and those recommended by your Special Committee, so that I do not need to detail them here. May I say that the two recommended schedules parallel each other so closely that there is not enough of a difference about which to worry. Should you not be familiar with the terms, somebody can ask me about them when I finish. They are not too far off of Regulation W.

I cannot stress too strongly, for I do not possess enough adjectives, the great importance of every bank and every finance company, large and small, sticking to these terms. I have had numerous talks with other banks and with finance companies in recent weeks on that subject. It is obvious that some slight deviation from one of the terms might not in itself be unsound, but it must also be perfectly obvious that if one company takes a slight edge its competitor will take another edge, and a vicious snowball is set up that can completely disrupt the entire down payment and time situation, to the great detriment of everyone in the industry.

The Consequences of Sub-Standard Terms

What are the consequences of a departure from what, as I have been able to find out, everybody recognizes as sound, proper terms, on which a substantial profit can be made? I do not mean to put these in order of their importance, but merely to detail some of them for you.

(1) I am sure that departure from the terms would have a very adverse effect on bank credit available to the finance business, and that is the life blood of the business; its inventory. I have just recently attended the annual meeting of the Robert Morris Associates in California, at which there were representatives of most of the major banks in the country, and many of the representatives attending the Conference are the men who are concerned with the study of finance credit. We have

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*An address by Mr. Yager before the 14th Annual American Finance Conference, Chicago, Ill., Nov. 18, 1947.

Construction Faces New Decisions

By ROBERT W. McCHESNEY*

Chairman, Committee on Policy, Construction Advisory Council of the Chamber of Commerce of U. S.

Asserting construction industry is now building houses at record-breaking pace, Mr. McChesney refutes criticisms and attacks. Warns attacks are smears of politicians and Socialists. Ascribes high building costs in part to taxes, and says prices are now "on a plateau," and cost of construction is becoming stabilized. Lays difficulties to inadequate and insufficiently skilled workers, and recommends a policy for stabilizing and expanding building industry.

We demand more food. It takes approximately three years for a steer to be raised and processed as steak for the table. We demand more steel. It requires approximately three years to design a steel-making plant, build it and get more steel in that metal's many useful forms. Three years—the interval needed to fill a prime need for food; the best nature, aided by scientific agriculture, can do. Three years—the interval required to fill the need for more of the metal that is our industrial spine; the best our industrial and metallurgical genius can do.

Robt. W. McChesney

We demand more houses. We need more houses. I am proud to report to you today that America is getting houses. Hundreds of thousands of them.

Note well that it has NOT taken three years to show some very real results on housing either.

Within two years after the shooting war ended—one of which was spent struggling with unrealistic government controls — the construction industry is now building houses at a record-making pace.

For September, the Bureau of Labor Statistics reports housing starts at the rate of 88,000. Completions were almost as numerous. That means a rate exceeding 120 houses an hour for every hour of the day, every day of the month. No week-ends off. No holidays.

No comparable data exists for monthly house building rates in the residential building boom of the 1920's but September's record of this year seems to be an all-time record for that month. This is at an annual rate of 950,000 units a year. The previous peak was 937,000 in 1925. It now appears that during this year our industry will have started 825,000 houses and will have completed approximately 800,000.

Bases of Criticism and Attack

Yet we find in the face of this record of performance continual criticism and attack. Investigations of every conceivable character have been initiated. Unfortunately, housing is set in a strong emotional pattern and it has been projected as a political issue. Made vulnerable by the circumstances of depression and war, it it a strategic bridgehead for those who would alter our American way of doing business. We are told at every hand that the construction industry has fallen down on the job; that it is too motheaten in method and organization to do the job; that it is riven with restrictive practices and monopoly; that it has no imagination and no discipline.

We have no quarrel with sound, constructive criticism. There are things in the construction industry, as there are in all other human endeavors, that need correction. Criticism is a stimulas that is needed. It is welcomed. But please may we ask that our critics play something other than the few scratchy records of the theme songs of our critics of yesteryears?

Some of the attacks on the construction industry are not criticism; they are merely smears. The deeds and words of some of our critics too often suggest that they are persons of little faith in the personal freedom inherent in the American system of competitive enterprise which is the economic foundation of our individual freedom.

These critics imply that the State could do a better job of building homes, plant and store than could free competitive enterprise. Many of these who hold to this belief have embraced and admired the socialistic experiments of Britain. These are a tenacious lot, for in the face of the dismal failure of the British socialized experiment in building, they continue to advocate the same medicine for America. They would prescribe a lethal dose for a healthy individual.

The heavy sedative of Socialism surely has lulled the British construction industry into a slumber that intrudes upon the day's work.

As for America's construction industry, it is up at sunrise and is a-doing. Witness that in September construction reached a postwar high in volume of $1,500,000,000 and in this monumental endeavor there were employed 1,925,000 men.

Mark well, too, that the Bureau of Labor Statistics, which is the source of these figures, reports further that in September for the first time since the removal of non-housing controls on July 1 there was a substantial rise in the volume of commercial construction. It was not until there was record volume of residential construction that any considerable volume of non-residential building got under way. Where are those of little faith in the freedom of enterprise who foredoomed home building to oblivion once the restraint of government decree was removed from the construction industry? They are still around but they must be amusing themselves in dark corners by tearing up in small bits their predictions of disaster. It is worthy of note that in this year of freedom (1947) the value of residential construction so far exceeds non-residential construction by $945,000,000 and home building accounts for 47% of all private construction expenditures. What a different picture than that of a year ago when we met here with the onus of government regulation weighing on us like a dead hand!

Need more be said on that score?

Why Prices Are High

It is true that while the construction industry is building houses at an astounding rate, the price of these houses is high. We could, with good grace, excuse ourselves by stating that so are eggs and beef high. Very high. Higher by comparison than are houses. We will not take refuge in this comparative haven other than observe that the men who build these houses have to pay around $1 a dozen for eggs and 75 cents a pound for beef. Consequently, their demand for more wages is not without provocation. This tends to raise the whole price level. It is unrealistic today to talk in terms of 40 cent steak and it is totally unrealistic, too, to compare a $6,000 house in 1939 with a $6,000 house today. The whole price level has moved up.

A dominating factor in the higher cost of building is that of taxes. Present taxes form a tremendous burden in comparison with those prior to World War II. The per capita burden for Federal taxes only has increased approximately 800%. Today's tax burden, therefore, represents a very substantial part of the selling price of any building, including a home. Tax revision is a fertile field wherein government can contribute to reduce the cost of construction.

The important thing in our industry is that the price of houses seems to have reached a plateau and there is reasonable expectancy that the price will decline. Taking the 1940 home cost as 100 the cost of a house rose to 141 during the war, standing at 141 on V-J Day. In the year following when controls went off, the cost moved up to 181. In the past year the index has moved to 187. This indicates a plateau. These are figures of the Federal Housing Administration.

Contributing to the leveling off process of housing costs is the fact that a year ago it took 11 months of complete a house. Today, the completion time is less than five months. This means a real saving in cost. One reason for this is the very pronounced increase in productivity at the building site both of management and labor management because the flow of material is more consistent and because it is developing its "know-how"; labor because it is shaking out its wartime incompetents and is awakening to its responsibilities under the free competitive enterprise system. Another factor is the ingress of highly-competent, am-

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*An address by Mr. McChesney at meeting of the Construction Advisory Council of the Chamber of Commerce of the United States, Washington, D. C., Nov. 19, 1947.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

There are a number of trends in the banking situation, some favorable and others not, which will bear careful watching and consideration. The postwar declines in bank deposits and earning assets apparently ended early this year, for a moderate upturn in both items was recorded in the second and third quarters statements of leading New York City banks.

Total loans and investments of New York Federal Reserve member banks, after receding to their postwar lows in the spring months of this year, have since expanded substantially; this is also true of member banks in 94 (formerly 101) leading cities outside of New York. The most pronounced gain has been in commercial and agricultural loans which have been advancing vigorously for some time and now stand at all-time peaks.

Interest rates are moving up in many directions. For instance, Treasury bills dated Nov. 20 sold at an average yield of .931%, a new high, thus continuing their practically unbroken rise since the unpegging of the 3/8% rate last July. Yields on other government securities have also been moving up. An example is found in the 2s of Sept. 15, 1952-1950, which recently sold to yield 1.43% compared with 1.25% last June.

In non-government areas there has also been a moderate hardening of rates, particularly in the categories of loans to dealers and brokers, and bankers' acceptances.

Other evidences of the upward trend in interest rates may be found in the movement of corporate bond prices, as indicated by the Dow-Jones Bond Indices, as follows:

	Ten High-Grade Rails	Ten Low-Grade Rails	Ten Utilities	Ten Industrials	Forty Bonds	U. S. Govts.
July 28, 1947	110.79	92.94	107.57	104.34	103.91	106.73
Nov. 22, 1947	103.65	87.31	102.99	100.66	98.65	105.29

It is clear that the basic trend of interest rates is upward.

President Truman's special message advocates, among other proposals for retarding the inflationary spiral, curbs on credits, especially in the category of "consumer credit" for instalment buying. Additional powers for the Federal Reserve Board are being advocated, including restoration of "Regulation W." However, the Board already has authority to require reserves of 14% for "country" banks, 20% for Reserve city banks and 26% for Central Reserve city banks, i.e. New York and Chicago. Yet, strangely, the Board has failed thus far to require the legal maximum of 26% in New York and Chicago, while at the same time it asks for more power.

For a number of years both New York and Chicago banks have been fully invested, for their "excess reserves," as reported by the Federal Reserves, have been scraping along the zero line of the chart since March, 1943; on a country-wide basis "all member banks" have been averaging around one billion dollars, the lowest level since 1933.

It is believed that the Board may soon require New York and Chicago banks to move their reserves up to the legal 26%, but it seems possible that this may be done in a series of three 2% steps in order to facilitate the transition. Whether Congress will authorize the Board to require higher reserves is problematical. Such a move would compel the banks to sell short-term governments, adding still further pressure to the upward rise of interest rates, and tending thus to increase the cost of servicing the $260 billion national debt, a contingency not welcome to the Treasury.

With higher reserves the banks obviously would be compelled to curtail lending, and this, presumably would be "deflationary." However, the most inflationary type of bank lending, and this only moderately so, the consumer-credit instalment-buying loan which, it is believed, does not constitute a very large portion of the aggregate loan accounts of most large New York City banks. On the other hand, loans to business for the purpose of facilitating and increasing the production and distribution of goods affect the opposite side of the inflationary equation.

There are lots of pros and cons and contradictions in the situation which would seem to place the regulating authorities in something of a quandary. This writer is inclined to believe, therefore, that action will not be drastic, and that such additional credit controls as may be imposed will be relatively moderate.

It is of interest, in view of the present 20% reserve requirement in New York City and of suggested higher requirements, to look at the relation of earning assets to deposits as reported on the Sept. 30, 1947 balance sheets of the following 15 New York City banks.

	Sept. 30, 1947				Cash & Due From Banks, Etc.	
	Deposits (000,000)	Earning Assets (000,000)	Earning Assets % of Deposits	Uninvested % of Deposits	Total (000,000)	% Deposits
Bank of Manhattan	$1,035	$854	82.5%	17.5%	$281	27.1%
Bank of New York	316	237	75.2	24.8	108	34.2
Bankers Trust	1,393	1,230	88.3	11.7	331	23.8
Central Hanover	1,423	1,161	81.6	18.4	393	27.6
Chase National	4,542	3,696	81.4	18.6	1,193	26.3
Chemical Bk. & Tr.	1,195	1,000	83.7	16.3	310	25.9
Corn Exchange	783	612	78.2	21.8	213	27.2
First National	627	645	103.0	----	148	23.6
Guaranty Trust	2,475	2,325	93.9	6.1	528	21.3
Irving Trust	1,030	888	86.2	13.8	261	25.3
Manufacturers Trust	2,153	1,706	79.2	19.8	582	27.0
*National City	4,741	3,848	81.2	18.8	1,237	26.1
New York Trust	615	520	84.5	15.5	166	27.0
Public	514	438	85.2	14.8	110	21.4
U. S. Trust	120	116	96.5	3.5	37	30.8
Total	$22,962	$19,278	84.0%	16.0%	$5,899	25.7%

*Including C. B. F. T.

NOTE—Earning assets plus cash items exceed deposits, because they reflect also capital, surplus, and undivided profits which aggregate approximately 9% of total deposits.

It is pertinent to note that earning assets of these banks are at a very high level; furthermore, the rate of return on these assets is moving up moderately, due to the firming of interest rates in many directions as noted above. Furthermore, if earnings assets are reduced through the imposition of higher reserve requirements and other restrictions, it would only be good business and common sense for the banks to ask higher rates on their loans.

"The Forgotten Production"

By HENRY J. KAISER*

Prominent industrialist, laying chief cause of inflation to production shortages, advocates long-range program of tax incentives to expand producing capacity. Says this would stimulate competition and prevent concentration of economic power. Points out shortages in steel, aluminum and food, and says we are faced with a "peacetime Pearl Harbor."

Today, if the fearless voice of F. H. LaGuardia could be heard at this hour, he undoubtedly would give you a searching size-up of the special session of Congress and President Truman's message of the week. I don't profess to tell you what he might say.

Henry J. Kaiser

But I do know the spirit in which he would face today's problems of inflation and desperate shortages of basic materials and goods. Because, just before his death, the man you called "The Little Flower" asked me to take his place one day on his program; he asked me to answer those we believed were trying to sell America short.

Now that Congress is in emergency session, you can be sure that F. H. LaGuardia would speak out against those who are muffing the chance really to solve the present crisis of shortages and soaring prices. I am sorry that much thinking in Washington is not giving adequate attention to the basic economic problem facing the country. I believe industry is anxious to do the job that's essential, but it must have constructive, speedy government cooperation, which I'll outline later in this broadcast.

You can directly attack the cause of inflation. The way to fight it can be spelled out in terms simple enough for your child to understand.

If your son hears you complaining about high prices and asks, "Why does everything cost so much?"—you can tell him:

"There aren't enough things being produced to go around. People want homes, and all that goes in homes. They want automobiles. They are making good money and they want to eat and live well. Other countries have to buy our machinery, in order to revive. People are going to keep right on wanting to buy things at home and abroad—a lot more things than our present factories produce.

"So when folks want to buy more goods than are made, they are bound to bid up prices. That's called—inflation."

Your boy likely would reply, "Say, that's awful simple. The way to stop inflation is to build more plants to make more things."

Number 1 Inflation Cause

Our Number 1 inflation cause arises from critical shortages—yes, criminal shortages.

Both President Truman and most of his critics have failed to put enough stress on making an immediate frontal attack against the causes of high prices. The President proposes a crisis program, emphasizing possible rationing and fixing of prices and wages. Perhaps there are some non-luxury items that require price controls and allocations. But why? Because the government should have fostered industrial expansion last year; yes, it should have started two years ago.

Now, any necessity for controls can be minimized by striking directly at the causes of scarcities.

The President, in his message to Congress, put his finger lightly on the real trouble. He said, "Our long-range programs must stress ever-increasing production."

How long away can "long-range" be?

Senator Capehart of Indiana, minced no words on a radio forum the other night when he strongly championed the expansion of factories and food production as the immediate solution.

Expanding Industrial Output

The President, it's important to note, again pried into the very

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*A radio broadcast by Mr. Kaiser over Radio Station WJZ, Nov. 23, 1947.

Harriman Wants to Allocate Steel

Commerce Secretary also urges immediate export price controls and enactment of other Truman proposals to curb inflation.

W. Averell Harriman

Appearing, on Nov. 26, in support of President Truman's anti-inflationary proposals before the Joint Committee of the House and Senate on the Economic Report, W. Averell Harriman, Secretary of Commerce, asked for the immediate enactment of controls in the distribution of steel and other scarce materials through priority and allocation arrangements. By this means, Mr. Harriman asserted, steel and other materials could be diverted from less essential purposes to production of needed freight cars and farm equipment.

The Commerce Secretary also recommended restoration of price controls on goods shipped abroad. Harriman told the Joint Committee that power to fix prices on goods shipped out of the country would enable the Government to curb profiteering in exports. "Foreign purchasers are often willing to pay prices substantially above the domestic price of scarce materials," he remarked, and maintained that export sales at excessive prices were draining goods away from domestic use and causing domestic prices to move higher. It was also causing, he said, a rapid depletion of the dollar exchange, thus increasing the cost of foreign aid and threatening the foreign trade interests of the United States.

The Commerce Secretary explained that he did not expect that controls over the allocation of steel and other materials would be as fully exercised as they are over tin. "Controls should be limited in character and applicable only to scarce commodities," he said, adding: "Adequate authority within these limits will be requested to order set-asides and to issue priorities, to issue limitation orders, and to control inventories, and to allocate scarce materials."

With the cooperation of industry in fixing allocations and controls, Mr. Harriman expressed the belief that it will not be necessary to exercise the new powers "for more than a few purposes, leaving the vast majority of business transactions free from control."

Gordon Williams With Int'l Monetary Fund

The appointment of Gordon Williams as Assistant to the Managing Director of the **International Monetary Fund** was announced by Camille Gutt, Chairman and Managing Director of the organization. Mr. Williams will be in charge of public relations for the international financial institution.

Mr. Williams was for several years connected with Bankers Trust Company in its London and New York offices. During the war he was closely connected with the Lend-Lease program, both in the Office of the Secretary of the Treasury and later as a member of Mr. Stettinius' Foreign Trade staff. After two years in the Navy, he was released to the State Department where he was Adviser to the U. S. Economic Delegation to the United Nations. He joined the International Monetary Fund in November, 1946.

Cripps vs. Dalton

By PAUL EINZIG

London observer points out Hugh Dalton's resignation as British Chancellor of the Exchequer was as much due to his error in permitting sterling convertibility as to indiscretion in disclosing to press his budget figures. Hints disruption in British Cabinet arose from Dalton's inflationist policy.

LONDON, ENG.—The dramatic circumstances of Mr. Dalton's resignation are, at the time of writing, expected to be subject to a Parliamentary inquiry, and it would be risky to make any comments which might appear after the inquiry has been actually initiated. There is no reason, however, why the background to the change at the British Treasury should not be dealt with. The cause of Mr. Dalton's resignation was of course his inexplicable indiscretion in communicating the essential points of his Budget to a journalist shortly before he announced them to the House of Commons. It seems probable, however, that even in the absence of that indiscretion he would have come into conflict with an influential section of the Cabinet, and quite possibly the outcome of the clash would have been his resignation.

Dr. Paul Einzig

Mr. Dalton's popularity in the Cabinet, in the House of Commons and, to less extent, in the country, has been undermined by his grave error of judgment on the return to convertibility. In addition, there was a grousing feeling among the economically-minded (as distinct from politically-minded) Ministers and Members of Parliament that he was not making the necessary effort for assuring the success of Sir Stafford Cripps' export drive. It is known that for some time he was opposed to the introduction of a supplementary Budget, but was overruled in this respect. When, contrary to his wish, he set out to produce the Budget, he is said to have done his utmost to keep to a minimum the austerity measures some of his colleagues and the vast majority of experts were urging on him.

On the other hand, he was backed by a large proportion of the Parliamentary Labour Party, especially by the Members representing various labor unions. Their line of argument ran as follows: It is all very well for economists to demand austerity measures in order to mop up excessive purchasing power. They overlook the psychological aspects of the situation. The industrial laborers are at last beginning to realize the need for an increased effort to raise their output. Should the government adopt drastic austerity measures in order to curtail their purchasing power, they would inevitably react to this by relinquishing their efforts, and the output would fall. Consequently, the curtailment of purchasing power would be more than offset by a decline in the volume of goods available for sale.

Those in close touch with the masses of workmen are inclined to think that there is a great deal in this argument. Not only would organized labor enforce an upward adjustment of their wages if additional taxation and a removal of food subsidies raised their cost of living, but they would also become discouraged, at a moment when they show signs of an increased willingness to work harder. This is particularly true about miners, judging by the rising trend of the coal output in recent weeks. Mr. Dalton and his supporters in the Cabinet and in Parliament held that it would be a grave error to risk an unfavorable reaction.

Sir Stafford Cripps, on the other hand, favors austerity. He is a deflationist while Mr. Dalton is an inflationist. He wants to assure the reduction of the "gap" by reducing consumption rather than relying largely on an increase of production. Mr. Dalton's principle was to live and let live. He did not mind a certain amount of inflation, as it made for good temper among working classes and middle classes alike. Sir Stafford Cripps, on the other hand, disapproved of living beyond our means.

The Cabinet was inclined to support Sir Stafford Cripps, if only in order that Britain should be able to claim to have done everything possible to work out her own salvation before applying for new American aid. But Mr. Dalton eventually scored a victory, and he was allowed to produce a half-hearted Budgetary effort. He was strongly criticized, not only by Conservatives but also by Right-wing Socialists for having failed to provide the financial measures required by Sir Stafford Cripps. While the Left-wing Socialists were delighted at the absence of cuts in food subsidies and of additional tobacco duty, the majority of speakers during the Budget debate had very little to say in favor of the Budget. This did not indicate, however, the true proportion of supporters and opponents in the Labour Party. Many of the Left-wing opponents of an increased Budgetary effort are too inarticulate on financial matters to take part in debates of this kind.

Now Mr. Dalton has relinquished his post in favor of his opponent in the government. Many people expected Sir Stafford Cripps to scrap his predecessor's budget and to introduce much sterner measures. Instead, he accepted the Budget he inherited, and made it plain that he did not intend to make any alterations until the ordinary Budget in April, next. Indeed it would not be easy for him to defy the Socialists opposed to further austerity. Now that Mr. Dalton is no longer in the government he would be in a position to oppose openly any such measures, and the majority of the Labour Party would rally round him. So for the time being at any rate, Sir Stafford Cripps will have to pursue the policy he had opposed until now within the Cabinet. There is to be no further taxation till the spring. Nor is he likely to cut subsidies. Those who expected him to do away with the cheap money policy had to learn from his first public statement as Chancellor that he intended to do nothing of the sort. He refused to be convinced by the chorus of economists who claim that cheap money is largely to blame for inflationary spending. As a result, he has lost favor with the Conservatives who regarded him as their man so long as Mr. Dalton was there, but now they are inclined to adopt fully as critical an attitude towards him as they did towards his predecessor.

Case, Inc. Opens

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Case, Inc. is engaging in a securities business from offices at 625 Market Street. Officers are Joseph Hollzer, President; Eleanor P. Bettner, Secretary, and Rudolph Wollenweber, Treasurer.

Probabilities of a Recession

By GEORGE SOULE*

Formerly Editor of the "New Republic"

Mr. Soule summarizes briefly what happened to business after both World Wars, and points out deflationary recession has not yet occurred, as after World War I, merely because larger bank borrowings have offset reduced government spending, and currency volume has not been reduced. Sees likelihood of consumer demand being unable to absorb increased production unless prices are reduced, and concludes deflation will come when a government surplus is not substantially offset by expansion of bank credit and investment.

There is no more risky form of fortune-telling than the making of economic forecasts. I was persuaded to discuss the future with you only because I have recently had occasion to make a careful study of what happened after World War I. Perhaps by summarizing the main course of events at that time, and noting both the differences and similarities of the present with the boom-and-bust of 1919-1921, we shall be in a position to anticipate future events more intelligently. Perhaps not. At any rate, if I mislead you, I shall be in very distinguished company, including Presidents of the United States, prominent figures of the financial and business world, and noted professors of economics, all of whom have in the past made flagrantly mistaken predictions.

George Soule

It is as well established as any conclusion of any science that there will be a business recession sometime. As far back as the records go, there has been no interruption of the ups and downs of the cycle in any economy characterized by business enterprise. In the future we may learn how to eliminate these unhappy extremes, but in view of the present inflation I think you will agree with me that nothing that has been done yet has brought the cycle under control. The uncertainty concerns not the probability of recession, but the date of its arrival, its duration, and its severity. All these things have been subject to great variation in the past, and there is no known method of predicting them with any degree of certainty. The business cycle is not periodic in the sense of the cycles in physics or astronomy, which make possible accurate prediction.

What Happened in 1920

Now let us summarize briefly what happened last time. Immediately succeeding the armistice with Germany and the abandonment of war controls, there came a brief slump in the winter of 1918-19. This was followed by a rapid reconversion, swiftly rising prices, an inflationary boom in all the speculative markets, and an epidemic of strikes. The boom continued until about the middle of 1920. Agricultural prices then led the downward procession. They had been the highest of all, rising to about the same level as at present. Within a year they were cut in half, on the average, dropping nearly to the prewar level. Wheat fell from $2.50 or more a bushel to below $1 in the autumn of 1921; corn, which had been $1.88, dropped to 42 cents. Other prices followed, though at some distance. Prices of manufactured articles never fell as far as those of crops, remaining 66% above prewar. The general average of wholesale prices fell from 130% above 1913 to 50% above it. The Bureau of Labor Statistics' index of the cost of living dropped 12 or 13%. Industrial production was reduced from a high of 19% above the prewar of 1914 to 2% above it in 1921. There were nearly 5 million unemployed. The depression, which was one of the sharpest on record, was quickly over, and spirited revival began in 1922.

These are the facts known to almost everyone, and personally remembered by many. If we were to repeat this experience exactly, the inference would be obvious. But more analysis is desirable in order to see whether the parallel is as close as it looks on the surface.

Since you are technical men, you will realize that a complicated process like economic life cannot be understood without technical conceptions. I shall therefore ask your forgiveness for inserting at this point a little economic theory, simplifying it as much as possible without distorting the truth beyond recognition.

Everybody recognizes that the basic determinant of economic conditions is the relationship be-

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*A paper by Mr. Soule read before the Textile Research Institute, New York City, Nov. 14, 1947.

Railroad Securities

One of the poorest operating performances among the major Class I carriers so far this year has been that turned in by Chicago & North Western. It is true that the transportation costs have been controlled somewhat better than those of some of the large eastern roads but that is hardly an inspiring concession. Moreover, not only was the ratio high in itself, but, also, it showed practically no improvement over a year ago. The transportation ratio for the nine months through September amounted to 43.9%. In the like 1946 interval the ratio had been 44.2%. It is notable that even Pennsylvania, which has the highest ratio among the major carriers, has at least shown greater year-to-year improvement than that.

It is the opinion of many rail analysts that this year's performance of North Western merely points to the reappearance of the basic weaknesses that plagued the road in the years prior to the war. As a matter of fact, it is to these basic weaknesses, rather than to a too heavy debt structure, that many sources have traced the road's bankruptcy. Such basic weaknesses, either traffic or operational, obviously are not cured merely by the process of revamping the capital structure. For a time subsequent to consummation of the reorganization, however, they were obscured by the unusual railroad conditions incident to the war.

One of the most serious basic adverse factors in the Chicago & North Western picture is the short haul nature of the traffic. Even though there is considerable through traffic moving the length of the line between Omaha and Chicago the road has a very short average haul on freight. Thus there are insufficient line haul revenues to compensate for the heavy terminal costs in the Chicago area. These terminal costs are just as heavy on a shipment moving 50 miles as on a similar shipment moving 200 miles and producing four times the gross revenue. The location of the lines militates against any correction of this situation on a permanent basis although during the war the average haul did increase to above 200 miles as compared with only 161 miles in 1940.

Another adverse aspect of the North Western picture is the large volume of less car load freight handled. This is expensive traffic to handle, with an unduly heavy labor cost involved. It is generally conceded that with present wage rates the great bulk of LCL freight is handled at a substantial out-of-pocket loss. Chicago & North Western also handles a fairly heavy volume of passenger business which is generally unprofitable. Here again in the case of this particular road a large proportion of the movement is short haul. Finally, North Western has a large amount of mileage of very light traffic density. Such light density mileage also tends to inflate the over all expense ratio.

The operating performance and earnings record of Chicago & North Western in the period since the end of the war should at least help to answer the arguments of those who have claimed that the ICC was far too severe in its capital revisions in bankruptcy proceedings. This road was for some time pointed to as one of the most horrible examples of the unnecessary wiping out of old stock equities and drastic scaling down of junior creditors. It was claimed that the new capitalization was far too low in the light of the road's improved basic earning power. It is almost frightening to contemplate what might now be in store for the road had the proponents of the Reed Bill had their way in this reorganization.

For the five months through September the road reported net income of $1,805,069 which was only nominally above the level of a year ago although the gross revenues were up more than $10,000,000. The net income was equivalent to $1.97 a share of preferred stock. After deduction of the preferred dividend requirement for the period there would be a deficit of $1.99 per share of common. It is probable that the final quarter will produce sufficient earnings to cover the preferred dividend for the year but at best any balance for the junior equity will be modest. Considering the unusually high level of business and traffic this can hardly be considered as auguring well for normal earning power even with further rate increases.

Wilbur Nominated by Baltimore Bond Club

BALTIMORE, MD.—Le Roy A. Wilbur, Stein Bros. & Boyce, has been nominated for the Presidency of the Bond Club of Baltimore, it has been announced. Mr. Wilbur would succeed Joseph W. Sener of Mackubin, Legg & Co.

Le Roy A. Wilbur

Other nominations are Sewell S. Watts, Jr., Baker, Watts & Co., Vice-President; Summerfield B. Pearson, Alex. Brown & Sons, Secretary; and Norval H. King, Jr., Kidder, Peabody & Co., Treasurer.

W. Carroll Mead, Mead, Miller & Co. has been named Chairman of the Committee on Arrangements.

Nominated for election to the Board of Governors are Mr. Sener, Edward B. Freeman, Lockwood, Peck & Co., and Edward K. Dunn, Robert Garrett & Sons.

Election of officers will take place at the annual business meeting to be held at the Southern Hotel on Friday, Dec. 12, at 6 p.m. The annual dinner of the organization will be held immediately following.

Herman Kountze Dead

Herman D. Kountze, retired New York banker, died at the age of 74 after an illness of two months. Mr. Kountze was partner in the old New York investment house of Kountze Brothers. He was President of the Atlantic National Bank in New York from 1914 to 1922 when it was merged with another institution. He was a member of the New York Stock Exchange from 1927 to 1931.

The Outlook for the Railroads

By ROBERT R. YOUNG*

Chairman of the Board, Chesapeake & Ohio RR. Co.

Noting slumps in railroad stock values accompanied by upward surge in industrial shares, Mr. Young lays blame on regulatory bodies which hold down railroad rates and destroy capital values in reorganizations. Predicts unless rails are enabled to earn more on capital investment, there will be another wave of bankruptcies and final ownership by government. Says rails have become political football, and impaired services result when rails are not given a living wage. Decries opposition to certain rail mergers, and describes outlook for specific properties.

In searching my memory to try and discover why I should have had this great antipathy for Wall Street, which has done so well by me, I had to go back to the 1907 panic, when my father, who was a banker, an ex-cowpuncher, looked very gloomy around the house and ceased to give me my daily ration of Yucatan gum, and I asked my mother why my father was so gloomy, and she said it was because of Wall Street.

Robert R. Young

Those were the days when everything depended on the shipment of gold from England, and my Christmas that year was going to depend on the next shipment of gold from England. Well, the shipment didn't come.

Then my next experience with Wall Street came in the prewar days, when I was working for DuPont as a powder monkey. An ex-member of the New York Stock Exchange who weighed powder in the building in which I cut rifle powder told me one day that, on paper, he had just played Triangle File up on the Curb from three to nine and then gone short on it, played it back again, and made $900 by the transaction.

So I wrote my father back in Texas that he had been in the wrong business, and that I was going to have a look at this stock exchange business. So I found out then to open an account one had to have at least $100. Well, it took me a few months, on my $62 a month, but in a few months I had the $100 and I got on a ferry and I went over to Wilmington and went into a certain New York Stock Exchange broker's office and asked for advice as to what to do with my $100. He put me into 10 shares of Rock Island and 10 of Missouri Pacific and I didn't discover until a little later why he put me into the rails, but the reason subsequently developed was that it was a bucket shop, and I think that the firm was a short time afterwards expelled from the New York Stock Exchange for bucketing orders.

Well, I think if I had been running a bucket shop any time in the last 20 years I would have put my clients into the rails too.

I watched my 10 shares of Rock Island and the 10 shares of MOP go down, while Du Pont, Bethlehem Steel, and General Motors went up. In those days, when stocks went up, they didn't go up five-eighths of a point. They went up a thousand points.

I saw Du Pont and General Motors increase in value 8, 10, 15, 20 times, and then I saw them do it all over again in the 20's. But still my Rock Island and Missouri Pacific showed a tendency to weakness.

During that period it is true that New York Central did pay substantial dividends and got up to a pretty high price. I think in this period in which I was supposed to have gone short of the market and made a million dollars, I think probably the New York Central by that time might have been 170, and maybe paying a $7 dividend. You gentlemen know those historical facts much better than I do.

But today the New York Central is doing a much bigger business than it did in the 20's; the nation is certainly richer. The New York Central is a far better property today than it was in the 20's and instead of selling for 170 and paying a $7 dividend it's selling at 13.

Now, I'm not recommending New York Central as a purchase or saying that it is cheap in relation to other rail securities. As a matter of fact, I think there are many other rails which are much cheaper than New York Central, but why is it that General Motors and Steel and Du Pont and all these other companies have multiplied geometrically in market value, when our Rock Island was yesterday wiped out; when Missouri Pacific would have been wiped out by the insurance companies-sponsored reorganization plan, except for Alleghany Corporation, and when New York Central is selling, certainly, at bankruptcy levels.

The Rock Island Situation

Rock Island, which the Supreme Court and the Interstate Commerce Commission and the insurance companies wiped out yesterday, has $80 million in cash. It has $65 million in net free equity in equipment which market-wise is worth a great deal more than $65 million, because it couldn't be replaced today at any price. So there's $145 million of cash and equipment which you could sell tomorrow. You could sell it quicker than you could sell 10,000 shares of General Motors.

But the Commission and the insurance companies and the Supreme Court say that that great railroad property which on top of those liquid assets has $400 million of rails, stations and other fixed property, at 1913 values—a fair capitalization for that company has been fixed at $30 million of first mortgage and perhaps $70 million of income bonds and maybe $210 more million of stock. So that the bonds which the insurance companies and the Supreme Court and the Commission have said that this great railway property shall bear, is actually less than the cash and equipment, and those great bodies which are supposed to stand for free enterprise and against Communism say that much of the $400 million should be ignored and wiped out.

Now, what business is this of the Chesapeake & Ohio? The Chesapeake & Ohio is earning 9 or 10% on its capital and has been, pretty regularly, since 1930. That's no particular credit to us. That is simply because we have been fortunate enough to have coal as our source of traffic.

The rest of the railroad industry has been earning about 2%. Obviously, if the balance of the railroad industry is going to go on earning 2%, one of two things is sure to happen. One is that they will go into bankruptcy for the second time, or, two, they will be taken over by the government.

Neither one of those things is a very cheerful outlook for the C & O. The Interstate Commerce Commission has already stated that the rate of return being earned by the coal carriers is unconscionable. Well, that rate of return isn't half as unconscionable as the rate of return that they have set for the rest of the railroads.

The fact remains that if the C & O doesn't bring up the rate of return of the other railroads, the rate of return of the C & O is going to come down. That's why we have interested ourselves in railroad reorganization, in through-service and in the Pullman Company and in the New York Central.

Now, why is it that the greatest industry in the richest nation in the world is selling at bankruptcy levels particularly when that industry or that nation is about to take the torch of liberty and carry it to all four corners of the world?

Rails a Political Football

It is simply because the railroad industry has been and is being made a political football on the rate issue. Since 1920 or since 1930, if you take either one as a base, you will find that railroad rates are no higher than they were then. Yet supplies, materials and labor have doubled.

You remember last fall, when we had quite a break in the stock market. That was the time at which the Pennsylvania and New York Central lines were appearing before the Interstate Commerce Commission to argue for a rate increase, and they were making a showing in Washington that they were on the verge of bankruptcy. Those hearings were made public, got into the front pages of the newspapers and you could see the market go down every day as those facts were put into the record.

The Commission was hearing then on a rate application that had been made three and a half years previously and there had been three or four wage increases, not only approved by, but incited by government agencies. This prompted Alleghany Corporation at that time to print an advertisement of an open letter to Mr. Alfred Schindler of the Department of Commerce, pointing out to him that he had appeared before the Commission the day before, urging that the Commission hold up a rate increase until the situation became clear. Just what he wanted clarified I don't know, but at least, in the footnote to the open letter we wrote to him we asked him how long he waited for the situation to become clear before he urged a wage increase.

This year we have the same farce being repeated again. This time the Interstate Commerce Commission is actually going out to the far corners of the nation to receive testimony against rate increases from people who are making 30, 40 and 50% return on capital: even from farmers who are withholding their crops from market this year, because they are in the high income tax brackets and they'd rather see people starve than ship their produce to market. Those people are coming before the Interstate Commerce Commission and urging that these rail-

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*Stenographic transcript of an extemporaneous address by Mr. Young at a meeting of the Association of Customers' Brokers and N. Y. Society of Security Analysts in the Great Hall of the Chamber of Commerce, New York City, Nov. 18, 1947.

NSTA Notes

BALTIMORE SECURITY TRADERS ASSOCIATION

Charles Gross, Harry M. Sheely & Co., has been nominated for President of the Baltimore Security Traders Association to succeed J. W. Butler, Baker, Watts & Co.


Charles Gross


E. Elwood McClure


Allison M. Berry


Bernard E. Eberwein

Other nominations are—E. Elwood McClure, Stein Bros. & Boyce, Vice-President; Bernard E. Eberwein, Alex. Brown & Sons, Secretary, and Allison M. Berry, Robert Garrett & Sons, Treasurer.

Nominees for membership of the Board of Governors are Mr. Butler, the retiring President; J. Mitchell Bruck, Baumgartner & Co., and Howard E. Rien, Equitable Trust Company.

The election will be held on Dec. 5 at 6 p.m.


Andrew A. Jordan

BOND TRADERS CLUB OF SEATTLE

The Bond Traders Club of Seattle will hold their Christmas Party on Dec. 2 at 6 p.m. at the Olympic Hotel, Seattle, according to Andrew A. Jordan, Jordan & Co., President of the association. Price is $9 per person and eats, entertainment, etc., galore are promised.

The Club will elect new officers on Jan. 15, 1948.

CINCINNATI STOCK & BOND CLUB, INC.

The Cincinnati Stock & Bond Club announces that due to a late change their Christmas Party to be held Dec. 15 will be at the Hotel Sinton instead of the Netherland Plaza.

SECURITY TRADERS ASSOCIATION OF NEW YORK

The annual meeting of the Security Traders Association of New York, Inc. will be held on Friday, Dec. 5, at the Produce Exchange Luncheon Club.


John J. O'Kane, Jr.


T. Geoffrey Horsfield

A change in the candidates for officers is announced with three positions being contested. The nominees are:

President — T. G. Horsfield, Wm. J. Mericka & Co., Inc. and John J. O'Kane, Jr., John J. O'Kane, Jr. & Co.

First Vice-President — Frank A. Pavis, Charles E. Quincey & Co. and James F. Fitzgerald, Paul & Co., Inc.

Second Vice-President — Andrew R. Steven, Jr., Bond & Goodwin, Inc.

Secretary—John J. Meyers, Jr., Gordon Graves & Co., Inc. and Arnold J. Wechsler, Ogden, Wechsler & Co.

Treasurer—Wellington Hunter, Aetna Securities Corporation.

Candidates for directors, trustees of Gratuity Fund, national committeemen and alternates, and nominating committee are the same as previously reported.

Following the election of officers, and other business, the Association will hold a buffet supper. Leslie Barbier of G. A. Saxton & Co. is in charge of the committee on arrangements.

Prospects for Tax Cuts and Inequities in Tax Laws

By ROSWELL MAGILL*

Chairman, Special Tax Study Committee, House Ways and Means Committee

Asserting we need not despair of cutting government expenditures, former Under Secretary of Treasury urges budgetary surplus be allocated to debt reduction, tax reduction and foreign aid. Says tax reduction is essential to remove brake on nation's economy, but warns "we cannot afford to reduce income taxes much." Foresees improvement in 1948 in structure of Revenue Act to eliminate inequities, as long step forward.

A tax lawyer is no expert on world politics. He strains his capacities when he discusses tax economics. Yet some premises about items in the budget have to be laid down if questions of tax policy are to be discussed at all. I shall make mine explicit, even though I cannot debate them here with you this evening.


Roswell Magill

The Federal budgetary expenditures present to a layman an immensely complicated maze. If ever there is justification for a citizen leaving the subject to the experts, there is here. Yet it must be evident that we must not leave the determination of the size of the budget merely to Federal bureau chiefs. Any bureau chief shares the natural human desire to make his bureau bigger and better, to improve his staff to advance into new fields. Therefore, he just must have more money. We all witnessed a demonstration last spring of the intense unwillingness of the Federal bureaucracy to cut expenditures, of the propagandist appeals that can so readily be developed against any cuts. We are, therefore, very fortunate in having vigilant Congressional appropriations committees, well-staffed to search out and to find the soft spots in departmental budgets. As citizens and as professional guardians of the profit and loss statement, we owe the country the duty of assisting intelligent supervision of the budget in every way we can, and of supporting efforts to bring it under control.

*An address by Dr. Magill before the National Industrial Conference Board, New York City, Nov. 20, 1948.

We need not despair of the practicality of cutting the total of expenditures. We need a strong army and navy, certainly; and we want vigorous and effective government departments. Experts tell us that we can have them within a $20 to $25 billion budget. Therefore, let us strive to that end, for if we can attain it, crushing tax burdens can be eliminated. On the other hand, if we cannot get our expenditures under real control, the prospect for tax reduction, for a continuation of present business activity, for economic health here and abroad, is not bright. Finally, one way to get expenditures down is to reduce taxes so that the money is not there asking to be spent.

Debt Reduction, Tax Reduction and Foreign Expenditures

Three items — debt reduction, tax reduction, and expenditures abroad—offer the major competing claims to any excess of Federal receipts over expenditures. My premise is that a budgetary surplus should be divided among the three; that the excess of receipts should not be devoted solely to one or even two of the three.

Humanitarian motives combine with good judgment in favor of help to European countries which will do their best to help themselves. We certainly do not wish to play Santa Claus to the world, but we do want to preserve, if we can, a democratic civilization in which we may hope to live at peace. If widespread starvation in Europe is to be avoided and if its economy is to be revived and restored, aid from us appears to be essential. With the best will in the world, Europe cannot restore itself to physical and economic health.

We certainly have our own domestic problems to consider, as well as the world's. We are one of the few remaining countries in which a free private enterprise system persists. Our domestic health, as well as our aid to foreign countries, depends entirely upon the vigor and vitality of that productive system. We must continue to produce and produce mightily, for it is goods and not merely dollars that are in great demand today.

Necessary to Reduce Overall Tax Burden

Since taxes always operate as a brake upon the economy and our individual taxes remain at almost the war peak, it is especially necessary both to reduce the overall tax burden and to remove the tax injustices that have grown up through the years by the rigid and rigorous application of the revenue laws. We cannot expect men indefinitely to work harder and to produce more when the government gets more than they do out of their additional earnings. We need a more favorable tax climate in the interests both of satisfactory production and of satisfactory Treasury receipts.

Finally, the debt ought to be paid down a few billions. We ought not, I think, to devote excess revenues merely to debt reduction and to refuse to reduce individual income taxes at all. Paying down the debt alone will not remove any brakes on the economy. It will not cause men to produce more, nor will it increase anyone's incentives. Moreover, in the past, we have found that an intelligent reduction of tax rates may result in more revenue than

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With Gordon B. Hanlon

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Raymond J. Maher is with Gordon B. Hanlon & Co., 10 Post Office Square, members of the Boston Stock Exchange.

Ames, Emerich Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — William A. Maloney has been added to the staff of Ames, Emerich & Co., Inc., 105 South La Salle Street, members of the Chicago Stock Exchange.

H. M. Hellerud Now With King Merritt & Co., Inc.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Henry M. Hellerud has become connected with King Merritt & Co., Inc. of New York. Mr. Hellerud was formerly with Slayton & Co., Inc. and prior thereto was general agent for United Funds Management Corp.

Meyer in Rochester

ROCHESTER, N. Y.—Robert E. Meyer is conducting a securities business from offices at 153 Berlin Street.

Mutual Funds

Let Mutual Funds Be Your Watch Dog

Through mutual trust funds, the investor obtains twofold guardianship.

(1) The sponsoring investment management organization is constantly watching the fortunes of the companies represented in its portfolios in an attempt to weed out any security whose outlook may become dubious and to substitute a stronger situation for it.

Photo—Courtesy of Gaines

(2) The trustee bank safeguards the underlying securities in a custodian account, collects dividends, cashes bond coupons, and mails income checks direct to the shareholders.

Mutual funds also provide the wide diversification so essential to any successful investment program. Furthermore, this diversification is available to the small as well as the large investor. Whether the investor's surplus capital is $1,000 or $100,000, he receives the same careful portfolio selection and daily supervision of the underlying securities by an experienced staff of trained analysts.

A Morgan partner once said "We are compelled to conclude that capital cannot be preserved either by broad diversification of risks or by the purchase of securities which, in the judgment of informed men, represent sound investments at any one given time. It is only by the application of unremitting attention and the exercise of continuous sound judgment that the original value of the principal can be maintained or increased."

Mutual fund sponsors realize that the "blue chip" of today may turn into the non-dividend payer of tomorrow. They will continue to apply their best judgment and unremitting attention in their capacity as "watchdog" over $1,400,000,000 of investors' funds.

A Tale of Old Cape Cod

In earlier Cape Cod days, wrecks along the backshore provided rich pickings for the Cape Codders. On a stormy Sunday it was the custom in Eastham to station a watcher on the beach while the rest of the town attended Sabbath service.

One Sunday as the preacher reached his Ninthly or Tenthly the watcher burst through the meeting house door, a gust of a northeaster on his heels.

"There's a ship ashore on the back side," he shouted, and for a moment all was confusion until the preacher's loud voice and raised hand stilled the tumult.

"Just a minute, brethren. Before you go I have just three words to say." By this time he was walking rapidly down the aisle, buttoning his coat. As he reached the door his hat went on. "Now start fair," he shouted.

Steel Wanted

The Nov. 15 issue of **Calvin Bullock's** "Perspective" comments in part on the steel outlook as follows: "'Steel wanted. Will pay exorbitant prices.' Such advertisements, which have been appearing with increasing frequency throughout the industrial regions of America, bear witness to the current outlook for steel and to the harried life of the typical steel executive today. Without denying that present economic conditions in general have some of the earmarks of a vigorous inflationary boom, it is worthwhile stressing once more that virtually the whole modern economy rests on steel. Due to the long period of economic stagnation between 1929 and the beginning of World War II we seem to have lost sight of this fact.

"An unbiased appraisal of current economic facts must leave one bullish on steel. Perhaps it is worthwhile to keep caution alive even if resort must be had to superstition. But one should recall that if Big Steel once before increased its dividends just before a crash, a similar increase at another time ushered in a period of prosperity. Today, at least, all the signs read 'steel wanted'."

Famous Misquotes

According to the 1948 edition of "The Farmer's Almanac," many famous sayings are attributed to the wrong man. Examples:

"Go west, young man," attributed to Horace Greely, was first said by John Soule, another newspaper editor.

"Everybody talks about the weather but nobody does anything about it," attributed to Mark Twain, was first written by Charles Warner, editor of the "Hartford Courant."

"They shall not pass," attributed to Marshall Petain, was actually uttered by his successor at Verdun, General Nivelle.

"The forgotten man," attributed to Franklin Roosevelt, was borrowed from Professor Sumner of Yale.

And of course there are many who don't believe that Shakespeare's plays were written by Shakespeare.

Wellington Shares in Demand

During the 12 months ended Sept. 30, resources of **Wellington Fund** rose 39% from $33,127,000 to $46,058,000, about four times as much as the total percentage gain of all mutual funds. During the month of October, investors purchased more **Wellington Fund** shares than in any single month in the 19-year history of the fund. Nice going, Mr. Morgan!

Notes:

Lester Collier of 44 Wall Street, New York, N. Y. has prepared a booklet on Mutual Funds called "Distinctive Investment Materials." The booklet including a business reply card is available to dealers at varying prices depending on the quantity ordered.

The November issue of "The Exchange" published by the **New York Stock Exchange** has an article on mutual funds headed "Triple Assets Mark Seven-Year Strides of Mass-Investment Medium. . . . The Mutual Fund."

National Securities & Research Corporation has published a new folder called "Low-Priced Common Stocks for Velocity."

Truman's Advisers Ignore Basic Economic Truths

By WILLIAM WITHERSPOON

Statistical and Research Department, Newhard, Cook & Co., Members New York Stock Exchange

Financial statistician, commenting on concern of President's Council of Economic Advisers regarding inflation, attacks proposals to further restrict credit and to curb speculation. Points out languishing stock market as proof government controls have debilitating effect on public market places.

The ghost stories of President Truman, which he enunciated over the radio a few days ago, were apparently created by his Council of Economic Advisers. It has been reported that they now believe that the inflation danger has taken a turn for the worse. "Business Week" magazine say: "What scared the council are signs that business borrowing from commercial banks is beginning to run far beyond expectations."

William Witherspoon

Can it be that here again the experts were caught unprepared? If so, it becomes even more amazing that those persons who are advising the Administration on economic and financial affairs should ignore some of the basic economic truths and thereby reach false conclusions which are soon violated. For example, the Council's former conclusion to the effect that the Marshall Plan presents no inflationary dangers has now been upset by the inflationary implications of mounting bank loans. This reversal of opinion appears to be one of the main reasons for the President's call of Congress into special session. However, there should not have been the necessity for a reversal of opinion. For some time, it has been obvious that bank loans would advance. Even this observer commented upon such a possibility a year or more ago, and this trend has been discussed on numerous occasions since then. About a month ago it was pointed out in this letter that the growth in loans has not stopped; it is in fact just getting well under way. The commercial banks are at long last getting back into the banking business instead of being investment trusts for government securities.

The council originally thought that price dangers were prevalent only in specific commodities, but now they are convinced the scales have swung to the inflationary side of the price equation and that things could easily get out of hand—implying an inflationary "boom and bust." So the President called the special session of Congress on the impulse of this advice without having any very definite program to offer. It has been reported, however, that there are several powers that his advisers want enacted for the purpose of curbing inflation: (1) Authority to increase bank reserves; (2) Revival of control over instalment credit; and (3) Control over the commodity exchanges similar to the SEC control over stock exchanges.

The authority to increase bank reserves will not accomplish the desired results. Such a program is the same as changing money from one pocket into another. True enough, it will take funds away from the commercial banking system and place them in the Federal Reserve system. This is apparently for the purpose of siphoning funds away from the commercial banks so as to restrict their loan activity. However, there is no law to prevent the banks from selling a portion of their extremely large investment in government securities to provide funds for commercial loans at higher interest rates. This is probably what will happen if reserve requirements are raised, and then the Open Market Committee of the Federal Reserve system will have to use these additional reserve funds to support the government market while the expansion of credit goes merrily along its way.

The revival of control over instalment credit would be somewhat anti-inflationary but politically it does not seem expedient. There must be a host of people who are looking forward to the fulfillment of their desires for many things through the medium of installment sales. It is characteristic of the American people to buy on credit and the reimposition of credit restrictions which have just now expired on Oct. 31, 1947, would seem to be politically unsound. From the economic side, instalment credit now amounts to approximately $5.3 billion as compared to around $3.2 billion in 1929 and $4.0 billion in 1937. Without restrictions it would advance two or three billion dollars above present levels because of the much larger volume of business activity than in prewar years, but this of itself is small in comparison to total loans and investments in the banking system of some $131 billion and would not have a very great bearing on the inflationary expansion. It would therefore seem politically impractical and economically of little avail to reestablish control over instalment sales.

The languishing stock market should be proof enough of the debilitating effect that government controls have on public market places. The stock market has become so "thin" that relatively small activity one way or the other makes quite violent and sporadic changes in the price level. Of course, the public can get along without stocks, but wheat and corn are staple commodities that play a part in the daily lives of everyone. Just picture in your mind's eye what would happen under rigid regulation and a "thin" market if we would have a shortage in a wheat crop, or conversely in the event of a bumper crop, without the stabilizing force of the speculator. There would be much more of a cry than now is raised because price changes would be much greater.

It has further been reported that the Administration realizes that price control at the consumer level is politically out of the question, but they are thinking in terms of selective price

control. Meat and wheat are the important items just now. There should have been enough experience in this by now to prove that a few elements of economy can't be restrained without the inflationary boil arising in some other sector. Nevertheless, some of the Washington "planners" are either seeking to perpetuate a large administrative force or else apparently are very slow of perception. They don't seem to realize that they are working on the wrong end; that is, from the price and monetary standpoint instead of concentrating on production. As Edson B. Smith so succinctly puts it in the "Boston Herald," "We have blown up the money supply enormously. There is no practical way of contracting it. Therefore, the only program is to keep on blowing up production until balance is restored."

The whole matter seems to resolve itself around the point that if economic advisers are constantly being surprised by obvious economic developments, and ignore the lessons of previous failures, their predictions of things to come must certainly be considered with "a grain of salt." Their dire implications of inflationary effects are overdone. Certainly we are in the powerful forces of inflation, but a knowledge of its presence and some understanding of its destination lead one to believe that prosperity, as measured in dollars, cannot help but continue for at least a few more years and that the "bust" is not quite as imminent or fateful as many would lead us to believe.

Finds Savings Inadequate to Finance Industry

August Ihlefeld, President of Savings Bank Trust Co., sees supply of municipal, corporate and real estate bonds outstripping savings.

"The supply of new corporate and municipal bonds and real estate mortgages this year exceeds the current rate of savings," August Ihlefeld, President of Savings Banks Trust Company, told the Savings Banks Officers Forum of Manhattan, Bronx and Westchester, held Nov. 18 at the Hotel Astor. (This is in marked contrast to the situation prevailing last year and early 1947 when liquid savings far exceeded the supply of new investments becoming available.)

August Ihlefeld

"However, financial institutions can provide the additional capital required," he continued, "through liquidating some of their government security holdings. During the war, they acquired government obligations in unprecedented amounts. Now, as other bonds and mortgage loans become available on attractive terms, they can sell government securities and reinvest the proceeds in other types of investment."

Urges Congress to Grant Credit on Dividend Income

"To facilitate such switching, the government must support the market for its own obligations," Mr. Ihlefeld continued. "It has ample facilities for doing so through its trust funds and agencies and through the Federal Reserve Banks." Mr. Ihlefeld pointed out that a danger in the present volume of new financing lies in the excessive ratio of debt to equity capital.

In view of the double taxation to which corporation income used to pay dividends is now subjected, Mr. Ihlefeld urged Congress to grant stockholders a credit on dividend income so as to encourage the purchase of equity securities for investment in the interest of sound private financing in the years ahead.

Day Stresses Importance of Securities Markets

President of Chicago Stock Exchange, in address to Chicago Sales Executives Club, holds theory that regional exchanges serve merely as a proving ground for local securities is fallacious.

James E. Day, President of the Chicago Stock Exchange, in addressing the Chicago Sales Executives Club on Nov. 20 at their Eleventh Annual Sales Congress, said, "One of the qualifications for a good investment is liquidity, and a security with good marketability will sell at a better price. The importance of the market place for a security, therefore, should not be underestimated." He further stated, "Practically everyone in our country has a direct or indirect stake in securities markets, but very few have a working knowledge of their proper function in our economy."

James E. Day

"The Chicago Stock Exchange," Day said, "is the central point of midwest financial markets. If our midwest financial markets continue to grow, so will they broaden the potentialities of our commercial markets."

Day, in pointing out some of the highlights of a recent study of modern markets made by The Chicago Stock Exchange said. "It is a misconception when regional exchanges such as Chicago are thought of as bush league farms where players are trained for the big league. Regional exchanges such as ours are as necessary to cities such as Chicago, Los Angeles and others as are commercial banks and investment bankers. The old theory that a regional exchange serves only the purpose of a proving ground for local securities before they are listed on larger exchanges has been disproved by a careful analysis of the factors that lead to a good market for securities.

"Corporate officials who are considering listing their securities," Day stated, "will find it profitable to check carefully the best market place for their securities by comparing the records of issues of similar type and size, rather than selecting a market place on the basis of its over all volume. The real value of an exchange or an aution market is to bring all buyers and sellers to one central point." Day said he believed the growing importance of The Chicago Stock Exchange as an integral part of the midwest financial markets is being better recognized today and that he was very confident the exchange will show considerable growth in the years ahead.

The Progress of Economic Reconversion

By EDWIN G. NOURSE*

Chairman, Council of Economic Advisers

Holding full recovery requires economic as well as physical reconversion, Dr. Nourse asserts we must attain new set of pecuniary and operative relationships among participants in economic life. This requires objective study of saving and spending and investment practices, as well as accounting and managerial practices and collective bargaining and labor relations. Says we have been "muddling" with readjustments. Stresses importance of curbing inflation, and asserts "laissez faire" policy will lead to "boom and bust." Says economic restraints should come from outside, since they cannot be developed from within.

For the first year and a half after V-J Day, we amazed the world and rather surprised ourselves by the speed and smoothness of our postwar reconversion. Civilian workers and plants were switched from making war materials to providing peacetime goods and services, and millions of men and women were reabsorbed from army, navy, and air forces with unexpected ease. But this is only physical reconversion. It will not achieve sound prosperity for the nation or assure stabilized prosperity in the years ahead unless we combine and complement this physical reconversion with the more delicate and difficult process of economic reconversion.

Edwin G. Nourse

It will perhaps illuminate the idea of economic reconversion if we draw some comparisons between the physical shifts we have had to make and the economic readjustments which are no less needed but which are probably harder to make. The reason for this difficulty is not so much that the principles involved are actually any more complicated or abstruse. The reason is that the personal interests of many persons in positions of greater or less administrative control are involved. These persons find it hard to deal with economic processes with the same objectivity and impersonal skill that they are accustomed to apply to matters of physical technique.

Looking then at physical reconversion as a basis of comparison, we note that factories had to be rearranged, some abandoned, others enlarged, some quite drastically redesigned, and some relocated. Flows of material had to be changed—enlarged here, contracted there, redirected to a new set of circumstances. Products, too, were redesigned to conform to new tastes, new technologies developed during the war, or new conditions of availability of materials or equipment. Above all, the relationship of these elements one to another and the timing of their flows had to be given minute attention, in order that high efficiency should be restored to the giant assembly line of our national industry so that it should serve peacetime needs most fully.

Economic Reconversion

Turning now to economic reconversion, it is obvious that wartime conditions were wholly abnormal. Free bargaining was superseded by controls. Much of industry was relieved of any task of selling its product or pricing it to a market. Producers simply delivered their total product to Uncle Sam or allocated a scarce product among clamoring private buyers. And payment was made through credit instruments that left us with a national debt of 278 billion dollars. Fortunately, this debt was internally held, but all the ultimate problems of income and property relations which it entailed were, and in large measure still are to be sweated out.

It must be evident to any thoughtful person that economic reconversion after this upheaval cannot mean "going back to normalcy." In a dynamic world there is no normal to go back to. Instead, we must work out a carefully considered new set of pecuniary and operative relationships among the active participants in economic life. These include the economic relations between the individual citizen and the community of citizens known as "the Government."

Any observer can see that physical reconversion required a fresh, dispassionate, and technically competent look at the new requirements for structures, the revision of operation practices, and the redesigning of machinery and product. Now, in parallel, is it not also evident that economic reconversion requires careful consideration, retesting, and readjustment of complex and interrelated price structures, wage structures, and capital structures? Does it not require objective study of saving and spending practices, of investment and utilization practices, of accounting and managerial practices, of collective bargaining and labor relations practices? I believe it calls for revision of these practices so that they may better promote the ends of high-level peacetime production. Finally, economic reconversion should challenge us to careful retesting of our human materials—managerial, technical, and physical—to assure better selection, processing, and adaptation to the product we seek to produce—maximum material well-being.

We Have Muddled With Readjustments

We have lost two precious years of time, failing to get down to the facing of the nature of this economic reconversion and the putting of these adjustments into operation according to an orderly and businesslike procedure. I do not mean that nothing has been done in those two years. We have, of course, muddled through to a lot of piecemeal and often acrimonious adjustments. They have permitted the business machine to operate at high activity and fair productivity. But they have been adjustments which in total have been of an inflationary rather than a stabilizing character. They leave us today in a confused, unfriendly, and vulnerable state just as we are put to the strain of meeting the greater-than-expected need of aid to Europe and the less-than-expected production at home, particularly in the matter of current and prospective crop yields.

I do not have the economic naivete to think that there is a neat formula by which the correct adjustments could have been made in this trying period. Nor do I have the arrogance to think I could have worked out the correct answer in each or any instance if it had been presented to

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*An address by Dr. Nourse before The Economic Club of New York, New York City, Nov. 20, 1947.

Canadian Securities

By WILLIAM J. McKAY

A long anticipated event that will mark the most important milestone in U. S.-Canadian economic history is in the offing, although the preliminary whispers have been drowned out by the clamor of the Canadian consumer concerning the new import restrictions. A great change is rarely accomplished without some painful dislocations, and before what amounts to a virtual U. S.-Canadian economic union can materialize, further adjustments of a possibly disagreeable nature will be necessary.

The long-range benefits, however, far outweigh the immediate sacrifices. Canada could not continue indefinitely to endeavor to maintain a precarious balance as the buffer between the U. S. and British economic systems. Also, the failure of the Bretton Woods currency schemes to achieve international exchange convertibility made it clear that the Dominion could no longer rely on the time-honored U. S.-British-Canadian exchange triangle. Consequently, the Canadian administration had to find another economic sheet-anchor. The choice between Britain and this country was virtually dictated. Apart from geographical proximity and the vastness of the easily accessible U. S. markets, Canada alone today shares with this country a deep-rooted belief in world freedom of trade and in the merits of individual enterprise. What is more logical, therefore, than this epochal experiment which will serve as a practical example to the world at large?

The grand-scale "Hyde Park Agreement" now in course of preparation is designed to integrate the production and the marketing procedures of the two countries in such a way that a better balance of U. S.-Canadian trade will be achieved, that the basic requirements of U. S. industry, both present and future, will be assured, and that thereby the urgent needs of Europe will be more readily satisfied. In answer to the Canadian critics of this revolutionary change of policy, it can be said that their alternative of currency devaluation provides no solution whatsoever to the Canadian economic problem. A common U. S.-Canadian dollar, moreover, is an essential factor in the new plan of full integration of the economies of the two countries. It is inevitable that some reorientation of Canadian industry will be essential, and in addition the freedom of the economic border will logically entail a rise in Canadian prices to a level approaching that prevailing south of the border. Such an adjustment, however, will assure a more normal exchange of goods, and the volume of U. S.-Canadian trade will be stimulated by coordinated planning in accordance with the aims of the new "Hyde Park Agreement." As a result it will be possible to dispense with the present irritating interim Canadian restrictions.

One great task, however, still remains unaccomplished. North American economic integration will be incomplete while the present drastic restrictions exist on a free two-way flow of U. S.-Canadian capital. In view of Canada's relatively youthful development, it is inevitable that U. S. capital must tend to move northward for many years to come. In order to ensure a willing and full flow, U. S. capital investment in Canada must be adequately protected. Consequently the deplorably narrow Canadian "free" dollar market in New York should be broadened in order to provide a proper channel for this indispensable movement of capital. Both countries have a vital interest in this problem, and consequently the "free" market should be stabilized as a result of concerted action by the two countries. The scope and the direction of the transactions in this market are well known. Therefore its control would be a relatively simple matter, and an unwieldy stabilization fund would not be necessary. In this way not only would an embarrassing reflection on Canadian credit standing be removed, but also a more appropriate and safeguarded channel would be provided for American investment, without which the ultimate success of the new "Hyde Park Agreement" would be sorely jeopardized.

During the week the securities markets moved irregularly as a result of the announcement of the new Canadian import restrictions. Initial improvement was followed by more important declines in both the external and internal sections of the bond market. Canadian stocks were also erratic, and early spectacular buoyancy in the golds was replaced by disappointed liquidation. To some extent this movement was a result of a long-term discounting of aid to the gold-mining industry and consequent profit-taking. Among the oils, there was a significant jump in the price of Gaspe Oil Ventures, which aroused fresh interest in the possibility of the production of oil in commercial quantities in Eastern Canada.

Kurt Safranski Opens

LARCHMONT, N. Y.—Kurt S. Safranski is engaging in a securities business from offices at 122 Brookside Drive.

Congress and High Cost of Government

By HON. CHARLES A. HALLECK*
United States Congressman from Indiana

House Republican majority leader, terming our Federal Government as "a gigantic bureaucracy, stresses importance of maintaining a balanced Federal budget and at same time reducing Government costs. Outlines work and future plans of Congress for revision of taxes and for holding down expenses and expresses view Congress will not make "blank check" appropriation for foreign aid. Reviews question of Government subsidies and concludes, despite difficulties, Government costs can be reduced.

To say that there are today few such problems is to put it midly. As a matter of fact, a few recently referred to in a speech in Congress are already developing some slight differences of opinion. I have about concluded that I have picked a heck of a way to make a living. It's always tough to be a statesman when the pressure of politics is strong. But I still have confidence in the good judgment of the American people if they know the facts.

Charles A. Halleck

The proper functioning of our representative form of government necessarily depends upon an informed public opinion. To that end the various publications issued by your board and such meeting as this for an exchange of ideas constitute a distinct contribution.

And it is a real privilege and honor for me to participate on this program with our Secretary of the Treasury (Mr. Snyder) and Dr. Magill, a nationally recognized authority on taxes.

That's "fast company" for an Indiana Congressman. But it so happens that the Indiana Congressman is able to talk to you as one who has been on the firing line. All appropriation bills and all tax measures must originate in the House. At the last session of Congress I fought the good fight for reducing the cost of government and reducing taxes in no less than 22 major appropriation and two tax bills. I can thus talk to you as a battle-scarred veteran in this "Battle of the Budget."

Our topic tonight—"Meeting the High Cost of Government"—itself implies that the cost of government is high. Of that there should be no dispute. And there is a great drive on now, as in the past, to make that cost higher.

Federal Government a Gigantic Bureaucracy

The Federal Government is the largest and most costly operation on the face of the globe. It has become a gigantic bureaucracy of approximately two million persons, with offices, desks, typewriters, file cabinets, dictaphones and mimeograph machines, performing all kinds of activities and exercising extensive powers affecting the daily life of the individual citizen. And just this week the President recommended that we create another agency with far-reaching powers.

In the last 14 years the Federal Government has grown from 521 agencies and bureaus of around 582,000 employees to 1,141 agencies and bureaus of around two million employees. Of course that is costly. And, even more important, it is dangerous to individual rights and liberties.

It was, of course, inevitable that the Federal Government expand to meet the needs for the prosecution of the war. And it was likewise necessary for the government to increase its revenue and engage in extensive borrowing to meet the war requirements.

But it must be borne in mind that the government materially expanded before the war and was then operated under successive deficits. It must also be borne in mind that we are now in fiscal year 1948, the third year after the war. The question is, can we afford a wartime government in peacetime.

The Administration's budget for the fiscal year 1948, submitted to the new Congress last January, provided for government expenditures of \$37½ billion. It was the largest peacetime budget in history.

By way of comparison, the expenditures in the prewar years of 1939 and 1940 were around \$9 billion annually. Even granting that changed conditions created by the war prevent our returning in the immediate future to the former peacetime level of government spending, a budget for 1948 that is over four times the peacetime budget of 1939 seems to me to demonstrate that Federal spending is out of control, save for the brakes the Congress applies on appropriations.

To this difficult and challenging task of reducing the cost of government the majority in Congress courageously applied itself. We took the position that the real criterion on sound budget policy is not how much we can spend wisely, but how much we can afford.

Case of Balanced Budget

During these many years of deficit spending we had to argue the case for the balanced budget. Apostles of the deficit spending school have been well entrenched in high places. They see nothing harmful in the accumulation of a public debt, which now approaches \$260 billion. They say it isn't really a debt anyway, since we owe it to ourselves. And, indeed, a great many people were deceived by that doctrine. They allowed themselves to believe that when money came from Washington it did not cost them anything.

Last November there appeared to be some awakening. But the real question yet to be decided is whether or not this dangerous illusion that money coming from Washington is free has become so imbedded in the minds of so many people as to make it impossible to cut the cost of government the way it should be cut.

But apparently we no longer have to argue the case for the balanced budget. The President, and even my good friend the Secretary of the Treasury, now speak affectionately of the importance of having a balanced budget. Possibly I can be excused for saying that the Administration suddenly discovered its attachment for the proposition when the Congress proposed a reduction in taxes. And at that time I also observed a new-found solicitude for debt retirement.

The fact that the budget is balanced does not itself solve the problem. Our problem is how to balance the budget at a reasonable peacetime level so that the people may be accorded relief from the burdensome wartime taxes and the public debt retired in an orderly fashion.

The election of the new Congress was a demand that the cost of government be reduced. Some of my good business friends vigorously insisted with me that the budget should be reduced to \$30 billion. But when it came to the job of actually reducing and eliminating expenditures, the public support the Congress should have had was too often conspicuous by its absence. Everyone wanted economy for the other fellow.

The job of reducing the cost of government has called for painstaking attention to detail in every item of the budget. It has called for sound appraisal of the relative merits and urgency of competing demands upon limited funds. It has called for a high order of statesmanship and real courage.

To give you some conception of the magnitude of the task, I call your attention to the fact that of the \$37½ billion budget, four important items alone totaled \$27 billion 109 million: national defense—\$11 billion 256 million; veterans' benefits—\$7 billion 343 million; interest on the public debt—\$5 billion; and international affairs and finance—\$3 billion 510 million.

Four Principal Items

These four principal items represented around 73% of the total estimated expenditures for the fiscal year 1948. Even reducing them to a reasonable minimum, by painstaking elimination of waste and by obtaining greater efficiency in administration, they would still represent a substantial part of the total Federal budget.

Of course, we are concerned about our national defense, and properly so. All are agreed that we must be prepared for any threat to our national security. We must be sure that our military leaders have whatever funds they need for that purpose, but no more than they need.

That involves a careful appraisal of each recommendation and a detailed scrutiny of each item proposed to be spent. It involves an elimination of waste, extravagance and duplications. For every dollar spent we must get a dollar's worth of defense.

And that is exactly what the majority in Congress has been striving to accomplish. In addition to a careful writing of the Army and Navy appropriation bills, we passed a bill for the unification of the services. It should serve to eliminate waste that results from duplications in procurement and general defense operations, and place our whole defense establishment on a more efficient basis.

And there is more to national defense than the size of the military establishment and the number of dollars spent for its maintenance. We must have a strong, efficient, productive economy to support it in the event of an emergency. That is why over-all government policy must promote full production capacity of our system of private enterprise. Then we can safely spend less on the regular establishment.

A sound major item in the Federal budget is that for veterans' benefits. Before the war these expenditures amounted to less than \$600 million. For the present fiscal year 1948 they exceed \$7 billion.

A grateful nation has a definite obligations to the veterans. We must discharge that obligation. And especially must we provide adequately for the care of the disabled and their dependents.

Hundreds of bills have been introduced into Congress to increase and extend veterans' benefits. Each has a certain political appeal. If the Congress were to

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*An address by Congressman Halleck before the National Industrial Conference Board, New York City, Nov. 20, 1947.

ABA Opposes Consumer Credit Control

Kenton R. Cravens, Vice-President of Mercantile-Commerce Bank & Trust Co., St. Louis, appears before Senate Committee on Banking and Currency against Senate Joint Resolution 157, which would reestablish credit controls. Says it would adversely affect middle and low income groups and force redemptions of savings bonds.

On Nov. 24, Kenton R. Cravens, Vice-President of the Mercantile-Commerce Bank & Trust Co. of St. Louis, representing the American Bankers Association, appeared before the Senate Banking and Finance Committee in Washington in opposition to Senate Joint Resolution 157, which proposes to re-establish consumer credit controls. His statement to the Committee follows:

Kenton R. Cravens

The American Bankers Association desires to make known to the Senate Committee on Banking and Currency its position with respect to control of consumer credit as proposed in Senate Joint Resolution No. 157. It was only a few months ago that Congress, in its wisdom, decided that consumer credit control under Regulation W of the Federal Reserve Board was against the public interest and should be discontinued. The resolution adopted by Congress last July fixed Nov. 1 as the date for the expiration of this control. The American Bankers Association believes that Congress acted wisely in declining to approve the permanent extension of the controls exercised by the Federal Reserve Board under Regulation W and that it would be unwise for Congress to reverse itself in this respect now. It is our conviction that the reasons given for the restoration of consumer credit controls are not valid. We note that the resolution before the Senate Banking and Currency Committee provides for the exercise of such controls only until June 30, 1948. It is our contention that the establishment of even temporary controls such as these is not required and will not have the results claimed for such controls.

Consumer credit controls are proposed by their advocates as a measure to check the upward spiral of inflation with its rising prices and high cost of living, and have been featured as one of the primary requisites for its cure. As for bringing relief to people in the middle and lower income groups, credit controls would work additional hardships on members of these groups who have demonstrated that they are sound risks. Instead of helping them, it would only make it more difficult for them to secure needed consumer goods such as furniture, household appliances, and automobiles for transportation. It is our belief that this phase of credit extension has played little part in the inflation with which we are all concerned. Consumer credit during this period of inflation has been smaller in relationship to consumer income than it was before the war.

The Association does not believe that consumer credit constitutes a critical area in the inflationary pattern, nor do we believe that reimposition of consumer credit controls will act as a significant deterrent to the inflationary forces presently at work. Moreover, the Association is of the opinion that restoration of the controls would not alleviate the bad conditions in the market for durable goods, resulting from shortage of supply.

Statistics are used glibly. It is commonly said, and indeed was stated by the President of the United States in his address to Congress on Nov. 17, that the amount of consumer credit outstanding has risen rapidly during the past year and a half, from $6½ billion in 1945 to more than $11 billion now. The fact of the matter is that less than one-half of this figure of $11 billion represents the kind of credit we are talking about when we speak of consumer credit.

To many, consumer credit means installment credit. It does not mean credit for everything the consumer buys. This distinction is generally not made in interpreting the statistics on credit. More than $6 billion of the reported $11 billion of consumer credit outstanding represents such consumer advances as single-payment loans; charge accounts in stores; end-of-the-month bills for public utilities such as gas, electric, and telephone services; grocery bills; butcher bills; and other bills that are met each month. Single-payment loans are loans made on notes to be repaid in one lump sum on a given date. Obviously, these do not fall into the installment loan classification for the reason that dealers and merchants do not ordinarily sell durable consumer goods on this basis.

Installment Buying Small Fraction of Purchases

The amount of money used in consumer installment buying and therefore, consumer installment lending, is but a small fraction of the buying power in the hands of the public as represented by cash in circulation; bank deposits; United States Savings Bonds, which are readily convertible to cash; and other liquid assets of individuals. The total amount of cash in circulation is approximately $26 billion. Bank deposits owned by the public amount to $131 billion, of which nearly $80 billion are in the form of demand deposits. There are almost $52 billion in time deposit accounts which also can be used by the public for purchasing goods; and as if this were not enough, there are close to $52 billion of United States Savings Bonds in the hands of the public, which are convertible into cash and usable for purchase of consumer goods. Adding all of these items together, it appears that through money in circulation, through bank deposits, and through United States Savings Bonds, the public possesses substantially more than $200 billion of money or its equivalent an amount 40 times greater than the amount of installment credit outstanding.

Consumer credit is an alternative to the dissipation of the savings of the public to the extent that it is used by people who would otherwise redeem their War Bonds or use savings deposits in banks, borrow against their savings and loan shares, or life insurance policies, etc., to secure cash with which to buy goods. Consumer credits are repaid in a relatively short time, and may provide the necessary stopgap to forestall the liquidation of savings deposits or War Bonds.

Avoid Pressure on People to Redeem Savings Bonds

It would seem to be important, at this juncture, to avoid taking any action which would tend to put pressure on people to redeem their government securities or to spend their savings by depriving

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Warn Banks Against Expanding Credits

Joint statement of Federal Reserve, Comptroller of Currency, Federal Deposit Insurance Corporation and National Association of Supervisors of State Banks cautions against inflationary effects of rapid expansion of bank credits. Sees danger in mounting instalment credit and wants loans confined to productive purposes.

In a joint statement issued by the Governors of the Federal Reserve System, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, in which the executive committee of the National Association of Supervisors of State Banks participated, the nation's banks are cautioned to tighten their lending policies and to restrict their loans to productive purposes only, thereby curtailing all loans for speculation, whether in securities, commodities or real estate. Banks are also told to guard against undue expansion of consumer credits.

Text of Statement

The text of the statement follows:

Our country is experiencing a boom of dangerous proportions. The volume of bank credit has been greatly inflated in response to the needs for financing the war effort. Domestic and foreign demands for goods and services are exerting a strong upward pressure on prices in spite of the high volume of our physical production.

The demands would be inflationary without any further increase in the use of bank credit, but the demand is being steadily increased through continued rapid expansion of bank loans, in addition to other factors outside the control of the banking system.

A substantial increase in production, agricultural as well as industrial, would be highly beneficial. However, increases can only take place slowly and to a limited degree. In industry they are dependent upon corresponding increases in the available supply of basic raw materials, plant capacity and the number and productivity of the labor force.

Therefore, a further growth of outstanding bank credit tends to add to the already excessive demand and to make for still higher prices.

The Board of Governors of the Federal Reserve System, the Controller of the Currency, the Federal Deposit Insurance Corporation and the executive committee of the National Association of Supervisors of State Banks are unanimously of the view that present conditions require the bankers of the country to exercise extreme caution in their lending policies. It is at times such as these that bad loans are made and future losses become inevitable.

It is recognized that a continued flow of bank credit is necessary for the production and distribution of goods and services. The banks of the country have adequately met this important need in the reconversion period.

Under existing conditions, however, the banks should curtail all loans either to individuals or businesses for speculation in real estate, commodities or securities. They should guard against the over-extension of consumer credit and should not relax the terms of installment financing.

As far as possible extension of bank credit under existing conditions should be confined to financing that will help production rather than merely increase consumer demand.

The bank supervisory authorities strongly urge directors to see that their banks follow these policies and maintain adequate capital in relation to risk assets.

Consumer Credit and Business Trends

By WALTER E. HOADLEY, JR.*

Business Economist, Federal Reserve Bank of Chicago

Asserting principal economic problems for some time will revolve around inflation and inevitable price readjustments, Federal Reserve Bank economist points out further expansion of private debt can only lead to higher prices. Advocates more caution in credit expansion and foresees still higher prices.

Pressures on prices continue to mount on many sides. The principal problem for the remainder of 1947 and at least well into 1948 clearly will be to combat more inflation—and prepare for the inevitable adjustment which can be expected to follow even current price levels. The extent of such readjustment will in large degree depend upon action taken now. Since mid-year, physical production has risen only about 1%; average weekly earnings are virtually unchanged; prices, up 4-5%; and the principal types of credit, up 5-18%. The nation appears to be "caught" in a new inflationary spiral which will be intensified by any further increases in the money supply. With "full employment" of manpower, materials, and machines, further marked increases in private debt can only lead to prices still higher than those already generated by the vast wartime expansion in the public debt and international demands for American goods.

Walter E. Hoadley, Jr.

Role of Consumer Credit

Consumer credit plays a relatively small but nonetheless important role in this entire inflationary situation. The total volume of consumer credit outstanding is currently at an all-time high and rising at a fairly rapid rate. Installment sales credit, however, is still below its prewar volume, being limited primarily by the output of many durable goods especially automobiles. All other types of consumer credit are at record levels. While no one can or should attribute the upsurge in inflationary pressure solely to consumer credit, it would be difficult to argue that the growth in consumer credit in recent months and weeks has not aggravated the rising price spiral for many goods and services. The volume of consumer credit outstanding is low relative to overall disposable income of individuals considering the prewar relationships of these measures. This situation, however, should not give rise to an attitude of complacency. On the contrary, if prewar relationships are still relevant for present abnormal conditions, here is evidence that further strong upward pressures for more credit are forthcoming at a time when there is a clear-cut need for increasing conservatism in overall credit extension.

There is probably no better illustration of an apparent conflict of interests between credit extending agencies and those concerned with and responsible for the general trend of business than in the field of consumer credit. From the point of view of the individual credit extending agency, a greater volume of carefully selected outstandings obviously means more successful business operations; from an overall economic standpoint, however, further marked expansion in credit is seen as adding up more inflationary forces in our already money-price swollen nation. There is urgent need to coordinate these two points of view, with the end of promoting the greatest possible economic stability and hence enduring good business volumes for finance companies and all others.

Sees Easing of Consumer Credit Terms

Comprehensive studies of the extent of relaxation of consumer credit terms since the end of Regulation W on Nov. 1 are not available, but there is sufficient evidence in the Midwest at least to indicate that considerable easing has occurred, not uncommonly well beyond the recommendations of organized consumer credit and related groups. Such relaxation is not difficult to explain in terms of competitive actions among credit extending firms and the demonstrated inability of many individuals to meet monthly payments as previously required. Yet, given prevailing inflationary conditions and limited possibilities for expanding production of many goods, the wisdom of such extensive weakening of credit terms would seem open to question.

The President's recommendation to Congress that greater restraint be placed upon general credit extension, including restoration of consumer credit regulation, stems from the inflationary conditions and prospects now generally apparent. On Congress rests the decision to act or not to act in the credit field, and, if so, to determine the specific policies to be followed.

Caution and uncertainty permeate the business community, but the upward movement of prices continues. Still further price advances appear certain. The extent of such price rises will depend in large part upon the effectiveness of whatever private and public policies are adopted with respect to credit and the many other factors involved.

*Summary excerpts from remarks of Mr. Hoadley at the 14th Annual Convention of the American Finance Conference, Chicago, Ill., Nov. 18, 1947.

Boylan Heads NYSE Hospital Fund Group

Robert P. Boylan, Chairman of the Board of Governors of the New York Stock Exchange has accepted the chairmanship of the New York Stock Exchange Committee of the United Hospital Campaign. Mr. Boylan, in referring to the serious financial plight of New York City's voluntary hospital system, said, "All of us must be concerned that one of the finest expressions of our democratic way of life is facing a critical emergency." Mr. Boylan said that a 79% increase in operation expenses in the last four years has placed the voluntary hospitals in a desperate financial situation. The implications are serious, he says.

Robert P. Boylan

Precisely!

"The only cure President Truman offers for the relief of inflationary pressures is the imposition of controls which he himself recently characterized as 'police state,' the application again of government controls over prices and wages, even consumer rationing.

Earl Bunting

"Concessions to the collectivists have gotten no one anywhere and, just as surely, pussy-footing with any hocus pocus of the total state has held everyone back.

"Enterprise is not suffering from criticism. It is suffering from 15 years of inattention. Our biggest job is to realize and to show everybody whose living comes from the system, everybody in this land, that progress has got to be worked for and paid for."—Earl Bunting.

Yes, anything and everything worthwhile has to be "worked for" and "paid for."

If only this simple fact could be brought home to every adult in the land, most of our troubles would be over.

World Bank Bonds Held by Non-Residents Non-Taxable

Treasury Department informs International Bank for Reconstruction and Development that under Sections 211 and 231 of Internal Revenue Codes, interest from bonds of the Bank, when paid to non-resident individuals or foreign corporations not engaged in trade or business in U. S., is not subject to taxation.

The International Bank for Reconstruction and Development announced on Nov. 25 that the United States Treasury Department has ruled that interest in bonds of the Bank paid to non-resident aliens, or to foreign corporations not engaged in trade or business in the United States, is not subject to Federal income tax under Sections 211(a) and 231(a) of the Internal Revenue Code. The U. S. Treasury ruling stated that such interest, therefore, is not subject to withholding under Section 143 and 144 of the Internal Revenue Code.

This ruling, which had been requested by the Bank some time ago, was communicated to the Bank in the following letter from the Acting Secretary of the Treasury to R. L. Garner, Vice President of the International Bank.

TREASURY DEPARTMENT
Office of the Secretary
Washington 25
Nov. 19, 1947

Dear Mr. Garner:

"Your communication of July 1, 1947, relative to the applicability of the Federal income tax on interest paid by the International Bank for Reconstruction and Development on its bonds owned by non-resident alien individuals or foreign corporations not engaged in trade or business in the United States, has been receiving consideration in this office.

"The Bank for Reconstruction and Development is an international organization resident in the United States and is a juridical entity separate and distinct from its member governments. The Bretton Woods Agreements Act (59 Stat. 512) authorized the President to accept membership for the United States in the Bank and provides that section 9 of Article VII of the Articles of Agreement of the Bank shall have full force and effect in the United States and its territories and possessions upon acceptance of membership by the United States in the Bank. The President accepted membership for the United States on Dec. 20, 1945. Section 9 of Article VII provides in part as follows:

"'(c) No taxation of any kind shall be levied on any obligation or security issued by the Bank (including any dividend or interest thereon) by whomsoever held—

'(ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Bank.'

"Under the Federal income tax laws, non-resident alien individuals and foreign corporations not engaged in trade or business within the United States are subject to tax under sections 211(a) and 231(a) of the Internal Revenue Code on any amounts received as interest from sources within the United States. What constitutes interest from such sources is determined by statutory rules under section 119 (a) (1) of the Code. In general, interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise is treated as being from sources within the United States. However, interest received from a resident foreign corporation or a domestic corporation is not considered income from United States sources, in the hands of non-resident alien individuals or foreign corporations, if less than 20% of its gross income has been derived from sources within the United States, as determined under the provisions of section 119 of the Code, for the period specified therein.

"Under section 116 (c) of the Code, as amended by the International Organizations Immunities Act, approved Dec. 29, 1945 (Public Law 291, 79th Congress) income of an international organization received from investments in the United States in stocks, bonds, or other domestic securities, owned by such organization, or from interest on deposits in banks in the United States of moneys belonging to such organization, or from any source within the United States, is excluded from gross income and exempt from Federal income tax. For application of such exemption, which is effective only with respect to taxable years beginning after Dec. 31, 1943, Section 1 of the International Organizations Immunities Act requires that an international organization be a public international organization in which the United States participates either by treaty or by Act of Congress, and which has been designated by the President through Executive Order as being entitled to enjoy the privileges, exemptions and immunities provided by that Act. On July 11, 1946, the President, in Executive Order 9751, designated the Bank as a public international organization entitled to enjoy the benefits conferred by the International Organizations Immunities Act.

"It is the opinion of this Department that Congress intended that no income tax should be imposed on the interest paid by the Bank on its bonds owned by non-resident alien individuals or by foreign corporations not engaged in trade or business in the United States. Such a result seems to be the intent and purpose of section 9 of Article VII of the Articles of Agreement. Moreover, since the Bank will have no gross income from United States sources within the meaning of the Internal Revenue Code under section 116 (c) thereof, interest on its bonds cannot be considered from sources within the United States under section 119 (a) (1).

"It is concluded that interest on bonds of the Bank paid to non-resident alien individuals or foreign corporations not engaged in trade or business in the United States is not subject to taxation under sections 211 (a) and 231 (a) of the Internal Revenue Code, respectively, and therefore, such interest is not subject to withholding under sections 143 and 144 thereof.

Very truly yours,
(Signed) A. L. M. Wiggins
Acting Sec'y of the Treasury

Mr. R. L. Garner
Vice President, Internationl Bank for Reconstruction and Development
Washington 6, D. C."

Mitchell New Mgr. of Bond Dept. of First Nat'l Bank of Memphis

MEMPHIS, TENN. — Early F. Mitchell, formerly assistant manager of the Bond Department of the First National Bank of Memphis, has been appointed manager of the department, succeeding Joe H. Davis, who has been transferred to the Correspondent Bank Department.

Early F. Mitchell

Mr. Mitchell a native of LaFayette County, Mississippi, was made assistant manager of the Bond Department in 1939. In 1941 he was given a leave of absence in order to enter the army, where he served four and one-half years before being released with the rank of Captain. Upon his return to the bank, he was made Assistant Vice-President and has been associated with the department in that capacity up to the present time. Prior to embarking upon his banking career, he served six years as deputy clerk of Shelby County Chancery Court. He is a graduate of Memphis University Law School. He is also Secretary of the Memphis Security Traders Association.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

F. Abbot Goodhue, President of **The Bank of The Manhattan Company of New York** has been made a Chevalier of the French Legion of Honor. Ludvic Chancel, French Consul General of New York, made the presentation on Nov. 20. It was in "recognition of Mr. Goodhue's services to the French Republic."

* * *

The Executive Committee of The Savings Banks Association of the State of New York anounces the election of Clarence G. Michalis, President of **The Seamen's Bank for Savings in the City of New York**, to serve as Treasurer of the Association, succeeding Carl A. Richter, Vice-President and Treasurer of the **Manhattan Savings Bank of New York.** The Savings Banks Association consists of 131 mutual savings banks in New York State, having assets in excess of $10 billion and having 7,098,000 depositors.

* * *

The Board of Trustees of **United States Trust Company of New York** on Nov. 20 elected Thomas J. Madden as an Assistant Vice-President of the Company. He formerly was an Assistant Secretary. Mr. Madden joined United States Trust on May 15, 1916.

* * *

Manufacturers Trust Company of New York announces with regret the passing of Percy M. Hall, Vice-President in the Industrial Credit Department. He had been associated with the bank since 1935. Mr. Hall who was born in West Chester, Pa., in 1887, began his business career in San Francisco in 1913. Later he moved to Chicago where he became Vice-President of the Continental Guaranty Corp. Before going with the Manufacturers Trust Company, he was for a time Assistant Deputy Administrator of the F.H.A. in Washington. Mr. Hall was a member of the Bankers Club, as well as other clubs.

* * *

Colonial Trust Company of New York has in the windows of its principal office in Rockefeller Center a display of juvenile books, in connection with the celebration of "Children's Book Week."

It was noted by Arthur S. Kleeman, President of the bank, that "in addition to being of great interest to children, the exhibit will be a valuable guide to parents and school teachers in selecting reading matter for boys and girls of all ages. The collection was supplied by many of the foremost publishers of juvenile books."

* * *

Harry C. Kilpatrick was elected a trustee of the **Harlem Savings Bank of New York,** at a recent meeting of the board of trustees, it was announced by Glover Beardsley, President. Mr. Kilpatrick is Vice-President and Assistant to the President of The Manufacturers Trust Company.

* * *

Promotion of seven officers and the election of Keith Williams as trustee of the **Buffalo Savings Bank of Buffalo, N. Y.** were announced on Nov. 10 by President William S. Rogers. Mr. Williams is President of Pratt & Letchworth Co. Inc. He succeeds the late C. Breckinridge Porter as a trustee of the bank according to the Buffalo "Evening News" from which the foregoing is taken, and which also had the following to say:

The officers promoted and their new positions follow:

Joseph H. Miller, Vice-President and Secretary; Raymond F. Eisenhardt, Vice-President; William H. Harder, Vice-President; Herbert F. Mayer, Treasurer; Robert W. Ramsey, Deputy Controller; Edgar S. Blatherwick, Assistant Secretary; Evar J. Skoog, Assistant Secretary.

* * *

Allan Forbes, President of the State Street Trust Company of Boston, Mass., and Philip R. Allen, director of Bird & Son, Inc., of East Walpole, Mass., were reelected on Nov. 20 as directors of the **Federal Reserve Bank of Boston.** Mr. Forbes is a Class A director and Mr. Allen is a Class B director. Each was chosen for a term of three years beginning Jan. 1, 1948. Announcing the results of the election on Nov. 20 Albert M. Creighton, Chairman of the Board of Directors, explained that the Federal Reserve Bank of Boston has nine directors, six of whom are elected by the stockholders and three of whom are designated by the Board of Governors of the Federal Reserve System. Of the six elected by the stockholders, three are Class A directors (representing banks) and three are Class B directors (representing commerce, agriculture and industry.

* * *

The stockholders of the **Riverside Trust Company of Hartford, Conn.** on Nov. 20 approved a proposal of the directors to increase the capital from $250,000 to $300,000 through a stock dividend of 20%, and to increase the number of shares (par $25) from 10,000 to 12,000. The Hartford "Daily Courant" of Nov. 21 reporting this also said:

"After approval of the recommendation directors authorized the transfer of $50,000 from the contingency reserve to surplus. The capital now is $300,000 with surplus of like amount. The undivided profit account stands at $110,000 and reserves at $15,000.

* * *

The Board of Directors of **Clinton Trust Company, of Newark, N. J.** on Nov. 19 approved an offer of the **Fidelity Union Trust Company,** also of Newark, to purchase the entire assets of Clinton Trust Company and to take over its banking offices at No. 505 Clinton Avenue, and at Lyons Avenue and Aldine Street, in Newark. A special meeting of the preferred and common stockholders of Clinton Trust Company has been called for Dec. 16, to act upon the offer. If three-fourths of all stockholders including two-thirds of each class of stockholders, accept the offer, the Clinton Trust will surrender its banking privileges and its business will be assumed by Fidelity Union Trust Company before the end of this year. Under the offer made by the Fidelity Union, preferred stockholders of Clinton Trust would receive the full retirement value of their shares, which is $50 per share, plus dividends accrued to Jan. 2, 1948. The original preferred stockholders of Clinton Trust were depositors of the bank who in 1934 received for each dollar of their deposits 50¢ in cash, 25¢ as a participating interest in Newark Mortgage Company, and 25¢ in preferred stock of the reorganized Clinton Trust. Dividends have been paid on the preferred stock of the bank since 1934. Common stockholders of Clinton Trust Co. would receive $16 per share under the offer, less possible adjustments for a capital gains tax on the sale to Fidelity Union, unknown liabilities which may be presented before liquidation is

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Sees No International Stability Without Exchange Stabilization

Dean Madden, Director of N. Y. U. Institute of International Finance, points out fixing exchange parities under present conditions avails nothing. Holds immediate removal of exchange restrictions would cause severe inflation with adverse political effects. Sees no likelihood of early revaluation of sterling.

It is generally expected that if the Marshall Plan on the reconstruction of Western Europe is put into effect it will lead to drastic monetary changes in many countries and that this will mark the beginning of stabilized international exchanges, according to a current bulletin entitled "Currency Stabilization" issued by Dean John T. Madden, Director of the Institute of International Finance of New York University.


Dean J. T. Madden

Under present conditions, however, it is impossible to fix the exchange parities of many currencies on a more or less permanent basis, the bulletin stated. So long as foreign-exchange restrictions exist and foreign trade is carried on to a large extent by the governments, and in most cases through the licensing of imports, the exchange rate of a currency is of no great importance. Moreover, since most countries are forced to import large quantities of commodities and have relatively little to export, the overvaluation of their currencies is not as serious as it would be in a freely competitive world market. The fixing of the parities by the various members of the Monetary Fund has, therefore, solved nothing, and the world at large is still confronted with the problems of establishing exchange rates on a more or less permanent basis and the removal of exchange restrictions. These problems are intertwined and both will have to be solved before a semblance of international stability can be achieved.

In analyzing the obstacles to the establishment of stable exchange rates the bulletin remarks:

So long as the process of inflation continues and the budgets of the governments show a large excess of expenditures over revenues, no serious approach can be made to stabilization of the currencies. Any effort in this direction could have only a temporary effect, since sooner or later the increase in the means of payment would lead to further depreciation or devaluation of the currency. The first prerequisite, therefore, for the stabilization of currencies is the establishment of sound fiscal policies, and particularly cessation of the practice of meeting budgetary deficits through recourse to the central and commercial banks.

The halting of inflation would increase the incentive of the individual to work harder and of the farmer to sell his products. This would lead to an increase in the supply of commodities available not only for domestic consumption but also for export. In many countries the large supply of money results not only in greater consumption of commodities produced at home but also in larger imports. Obviously, so long as these conditions prevail, rehabilitation of the currencies would have no lasting or beneficial results. Devaluation of the currencies of many European countries at the present time would not lead to an increase in production. It would merely cause an increase in the cost of imported goods and thus bring about a rise in prices and probably a further turn in the spiral of prices and wages.

In discussing the advisability of permitting exchanges to find their own level the bulletin states:

Adverse Effects of Removal of Exchange Restrictions

It has been stated that it would be better for the countries suffering from inflation and overvaluation of their currencies in terms of their external purchasing power to remove exchange and price controls, rationing, and subsidies and to permit the exchanges and prices to find their own level. Such a development, it is argued, would hasten the elimination of all those factors which now prevent ultimate currency stabilization and would accelerate the restoration of more normal economic conditions. The removal of exchange and price controls, it is claimed, would have the following effects: (1) Exchanges would depreciate rapidly, with the result that imports would tend to decrease because of the high prices of imported goods in terms of national currency. The lower exchange rate would stimulate exports to the extent that goods are available. (2) Prices would rise sharply, and this in turn would absorb a large portion of the vast purchasing power at the disposal of the people in a number of countries, except where labor was able to obtain a commensurate increase in wages. (3) High prices would stimulate production and thus result in an increase in the supply of farm products and manufactured goods. (4) This in turn would make available more goods for export, thereby leading to a restoration of equilibrium or at least an improvement in the balance of payments, and thus bring about a stable exchange rate at a realistic level. (5) Due to the increase in prices and the higher business activity revenues of the government would increase and the budget could be balanced. A balanced budget would mean an end to creation of new purchasing power through deficit financing.

On the surface, this program seems to be sound since it allows economic forces to take their own course without intervention by the government. Such a policy, however, not only contains a number of fallacies but would also be politically dangerous. In the first place, depreciation of the currency would not drastically reduce imports. The commodities that are being imported by most of the European countries at the present time are primarily basic necessities and raw materials without which these nations could not feed their population or operate their industrial plants. In order to prevent starvation, many of these countries will be forced to import foodstuffs until their own production has increased, irrespective of the prices in national currency. Furthermore, without the importation of industrial raw materials there would be large-scale unemployment. Secondly, permitting the currencies and the prices to find their own level would soon lead to demands for higher wages, and the race between prices and wages would be accelerated. Since the governments in a number of European

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Securities Salesman's Corner

By JOHN DUTTON

Are Stockholders People?

There are too many officers of publicly owned corporations who have been looking through the wrong end of the barrel. They act like they own some of the companies in which they only hold a managerial position. Many a time an investment dealer will call upon one of these shortsighted company officials in a quest for information and he is treated like an interloper. Some managers of many of this country's smaller corporations greet the average over-the-counter dealer as an enemy when he calls upon them and tries to find out what makes the wheels go round. They ignore their stockholders in the same callous way. The only time they wish they hadn't done this is when proxy time comes around, or some needed change in a company's affairs necessitates stockholder's approval. Then the glad hand and the smile come forward. When these shortsighted gentlemen complain about socialism, bureaucracy, and the lack of the general public's interest in the preservation of our free enterprise system they can only thank themselves for contributing to such an attitude. They have been saying to HELL WITH OUR STOCKHOLDERS for years and years . . . and that is just the way most of their stockholders feel about them.

Investment dealers and brokers who have been trying to serve the investment public in an intelligent manner can attest to the fact that stockholder relations in most corporations are in a deplorable and neglected state. Time and again management will spend the stockholder's money on employee benefits, on reports of the excellent advantages that may be derived from this or that pension fund, bonus, welfare, physical education program, or what have you, and the only consideration given to the people who actually own the business and have their money invested therein is an annual report couched in language of interest only to a lawyer or an accountant. Then we wonder why people are only interested in buying stock for a price rise. Under such conditions is there any other incentive for a stockholder to become interested in the welfare of his company? As it is he is only a sideline player who never gets in the game.

Some of these managers of business who are so busy doing everything except keeping their stockholders informed as to what is going on should take a look at what an investment dealer by the name of Jim Cleland (of New York City) has been doing with a little company that got into difficulties due to management. When Cleland took over a few months ago some of the bright boys who had been running this company were saying "What does a broker know about a manufacturing business?" Well, so far at least, he is showing them. He is putting common sense into this business and he's getting results. Sales are going up, profit margins are being raised, unusable inventory is being eliminated and debts are being paid. The current position is improving and customers who have not been prompt in paying their bills are being told, "pay up or go to court" . . . and they are paying.

And with all this excellent progress Jim Cleland knows something else. He realized that there were hundreds of good people who bought stock in this company several years ago and all they have received on their investment so far is a headache. So what did he do? He started to tell them . . . the bad as well as the good. As soon as he took over and finished his study of what he thought was wrong with this company he wrote to the stockholders and told them about it. He didn't pull any punches. He said it was a mess . . . but not hopelessly so. He also told them what he thought must be done to get this business back on the track again. Last week the stockholders got this letter:

To the stockholders of ——————,

Since I last communicated with you, considerable forward progress has been made by your company. While much remains to be done, the accomplishment of the last few weeks enables me to view the future with a measure of optimism.

It is too early as yet to fairly present our inventory position, of which I made mention in my previous letter. However, the liquidation of that account has been progressing satisfactorily and losses thus incurred have been kept to a minimum.

Sales in October crowded the $70,000 figure, as compared with $52,000 for September and $42,000 for August. Although the final analysis of last month's operations is not available, at this writing it should make pleasant reading when completed.

—————— current position is showing steadying improvement. Payables have been reduced sharply and our credit position is on the upgrade. Our bank loan was reduced $3,500 in October and a similar amortization payment is planned for November.

While financial matters have consumed a considerable part of management's attention, production problems have not gone unattended. I am pleased to report that our manufacturing efficiency has been stepped up and that further improvement in our operation is assured, by higher standards of housekeeping, general control and conservative research.

Very truly yours,
JAMES D. CLELAND,
President.

Good luck to you Jim Cleland . . . if there were more like you running some of our smaller companies whose securities are owned by the great American public there would be more interest in the welfare of these companies and a lot less talk of socialism and communism in this country today. If you want people to be your partners and to cooperate in any worthy endeavor you have to show them some consideration too. This also goes for the big industrial giants as well. After all . . . who owns these companies anyway?

Crofoot, Vice Pres. Of Blair & Co., Inc.

Blair & Co., Inc., 44 Wall Street, New York City, announced the election of E. J. Crofoot as Vice-President and Director. Mr. Crofoot will assist in the development by Blair of new industrial enterprises and in the management of the Company's present subsidiaries — Pepsi - Cola Bottling Co. of Los Angeles and Lucky Stores, Inc.


E. J. Crofoot

Mr. Crofoot is the founder of T. & C. Co., a Blair subsidiary and the major manufacturer of popcorn vending machines in the United States; partner of Oak Farms, a dairy firm in Dallas, Tex.; owner of Pepsi-Cola Bottling Co., Sacramento, Calif.; partner of Gobles Dairyland, Wichita Falls, Tex.; and partner of Tuckerman Rice Mill and Warehouse Co., Tuckerman, Ark.

During World War II, Mr. Crofoot was chief of the division of foreign finance of the United States Navy, Washington, D. C. and held the rank of Lieutenant-Commander. Prior to the war he served as President of Southwest Dairy Products Co.; President of Dairyland; President of Gulf Coast Water Co., Bay City, Tex.; President of Southwestern Rice Mill, and President of Bay City Rice Mill, and was interested in numerous other utility and industrial enterprises.

Restoration of Europe Essential

(Continued from page 6)

world power which once was Britain's.

It is an idea which I found—but only after my return—has been admirably developed in a book just published, or rather republished. It is by Brooks Adams, brother of Henry Adams, and is called "America's Economic Supremacy." It was first issued 47 years ago. I will not go into it in detail, but will merely mention that, with remarkable foresight, Adams pointed out a growing weakness of Britain and concluded that that weakness would result in world instability. He thought it a condition which could be remedied only if some other great power, namely, the United States, would step into the place about to be left vacant by the decline of the British power.

The concept that I took to Europe with me was this: that we must assume the position which our power demands that we take if the world is to be stabilized and peace is to be maintained. Just as a good voice or good muscles are lost if they are never exercised, so with national power. We have national power in great measure, and, with it, great responsibility. We must be prepared to exercise that power, with responsibility, or we shall surely lose it.

It is pleasant to be able to take note of many signs that we *are* prepared to exercise our power and fulfill our responsibilities. The very fact that some 215 Senators and Representatives went to Europe last summer, as well as scores of other Federal officials, is a convincing demonstration of a national awareness of our obligations. I believe there is no historical precedent for such large-scale Congressional investigating trips. The more one thinks about them, the more remarkable—and encouraging—they appear. Here was a great proportion of one nation's most responsible officials, working hard and objectively to determine how best that nation could help the rest of the world to prosperity and stability. The fact that Congress has shown such willingness to entertain and implement a foreign aid program testifies to the Congressmen's sincerity and to their intelligent appreciation of the economic realities which they saw in Europe.

Formulation of Program for Foreign Assistance

Let me now turn to some of those realities, to some of those facts of utmost consequence to America and basic to the formulation of a program of foreign assistance.

The outstanding single circumstance in western Europe, I believe, is two bad harvests, caused by a series of bad weather conditions not equalled in more than a hundred years. From Norway to Italy, western Europe experienced a drought in the summer of 1946, followed by a freezing winter of severity not known since Napoleonic days. This, in turn, was followed by an even more severe drought this summer.

The resultant bad crops are of vital significance. I suspect that the public here has failed to estimate and properly appraise the importance of the bad harvests. It is one of the most critical factors, if not the most critical, in both the political and economic climate of Europe.

It is one of the most significant reasons, for example, for the increasingly rapid rate with which the British have been using up their three and three-quarter billion dollar loan. Similarly, it was the reason why France could not spend her American credits and other dollar resources for the purchase of capital equipment, as she had planned, to restore her productive economy. Instead, she had to spend unexpectedly large amounts for the purchase of food. In France also the shortage of food intensified the difficulties with the black market and increased the inflationary pressures in that country.

The illustrations could be multiplied indefinitely. With a little reflection, I am sure you will see how bad crops dealt a crippling blow to prospects for economic reconstruction. Furthermore, you can see how they contributed to a deterioration of the political situation. Malnutrition and black markets created by shortages—all these results of a bad harvest are exactly the pre-requisites for a good harvest of another sort—a good harvest for aggressors. This is the atmosphere in which agitation can grow, in which false promises tend to be accepted without examination, in which opinions are formed and political affiliations are hastily entered into out of despair instead of such important decisions being reached by careful thought and reason.

Insufficient food, the result of bad weather for almost two years, has another effect and one that seems to me to be too often overlooked here. That is its effect on industrial production. There is a very direct and logical connection between food and production. It may not appear at first glance on this side of the Atlantic, but it stands out like a sore thumb in Europe.

Inadequate Food Cause of Inadequate Production

I do not hesitate to summarize the cause and effect relationship in categorical terms: inadequate food in Europe is the root of inadequate production. I say this emphatically because in too many quarters in this country one hears the allegation that Europe's troubles stem from laziness. You have all heard the crack: "If they wont' work, then let 'em starve." It implies that the Europeans are sitting down complacently and waiting for Uncle Sam to support them comfortably in a life of indolence.

The facts simply do not bear out this superficial and essentially malicious judgment.

Let me explain in more detail the relation of food to a man's productive work. The first effect is obvious. Energy, in the form of calories, must go into a worker if he is to produce energy, in the form of productive work. Less food means, quite simply, less physical stamina. How hard can a man work if he gets, as in Germany, somewhere from 1,500 to 2,000 calories a day—about half what an American worker is accustomed to consume? How is a French laborer to do a job on three ounces of meat a week and seven ounces of bread a day, which is his official ration?

The fact of the matter is that the diet in France, for example, is so low that almost all industrial managements feel obliged to give their workers one good meal a day, a meal which the companies largely subsidize. Similarly, in the German coal mines, the British occupational authorities supply the miners one meal each day. Otherwise the men simply could not do a good day's work, and it is quite understandable.

But there is a second way that lack of adequate food supplies affects productive output. It is somewhat more subtle, and it is a manifestation which we in America have never seen and have never been obliged to worry about. But this is what happens: In periods of food scarcity black markets spring up—I mean real black markets, in which a major share of the community's food purchases takes place, not just steaks and butter. To live in this situation, the worker is obliged to spend a considerable amount of time and effort in coping with the black market. In France and Germany, for example, the worker is virtually obliged to take time off from his regular job and spend it in the intricate toils of an elaborate and clandestine barter system to provide his family with the necessities of life.

While he does this, his work—the production his country needs—suffers. I cite only a couple of illustrations, related to me by M. LaCoste, French Minister of Industrial Production.

In his own province, he said, there is a valley in which tobacco can be grown. Above it are forested hills where timber, desperately needed for the rebuilding of the country, can be cut. So long as there was a black market in tobacco, the inhabitants spent their time in the valley, growing a contraband product. When the black market was cleaned up they returned to the hillsides and produced the lumber that France needed.

In French mining areas, where production is vital, some of the miners knock off one day a week to forage in the surrounding country for butter. If they find a pound to buy in the morning, they return to the city and sell half of it in the afternoon, thus obtaining in money the amount of the wage they would have earned that day in the mines. And left over, as velvet, is half a pound of butter for themselves and their families.

The same sort of situation appears even more clearly in Germany. One sees at every station, platforms crowded by men, women and children, some of whom have waited 24 hours or more to get on a train. And on each train the people are packed shoulder to shoulder in the compartments, on the blinds between the cars, and hanging on the steps—all for the purpose of getting out into the country to scrounge a little food. They are swapping their valuables for a sack of potatoes or whatever they can get.

I submit that with the food situation such as it is in western Europe, one might expect the people to be unable to work or shirking it. But the remarkable fact is that they are working, for the most part very earnestly and diligently.

In France where I had an opportunity to discuss the situation in detail with two large industrialists, I found that they are getting about 85% of the pre-war efficiency from their labor. Official French statistics bear out this finding. In Italy, there is universal comment—even Pope Pius spoke to me to this effect—on the extraordinary vitality and eagerness of the working population. The limit to their production is not a lack of will; it is a lack of raw materials and coal for fuel and power.

In England, there is, to be sure, what appears to be a valid complaint about the effort of what they call "casual" labor—workers on the docks, in the building trades and, unfortunately, even in the coal mines. But for most established industries—those in which workers have security of job tenure—the effort of the employees was up to pre-war standards. I was assured of this by a representative group of British industrialists.

Incentives for Work Absent

Even in the coal mines, I believe it is worth pointing out, the less than optimum effort does not appear to be the result of perversity on the part of the miners. The fact is that in England, as throughout Europe in a greater or less degree, the traditional incentives for work are absent. A British coal miner can earn, in three or four days' work enough wages to purchase his food ration and other necessities *which are available to him*. The luxuries for which he once worked, even the small amenities of life which he would like to have, are absent. They are not to be had. The choice which is available to our workers, and which the British miner once had—the choice between leisure or a radio, leisure or another suit of clothes—no longer exists. It is not easy, you will agree, to ask a man to work for money, which cannot be used to satisfy the family needs.

In the light of what is to be seen in Europe, I feel that we cannot be too critical of the European people and dismiss them with the charge that they are not working or exerting their best efforts. If we had had in this country the proportionate hardships of war, the consequent suffering and the disastrous crop failures of the two post-war years, I doubt very much if the people of America would have stood the trial with the patience and endurance of the peoples of England and France and Italy.

Indeed, the steps toward reconstruction which European nations have taken are substantial. More than that, they are promising tokens of what can be accomplished by those countries if we only give them the help with which they can help themselves.

Although I believe that last summer the British Government had failed properly to inform its people of the crisis they were facing, in a few weeks' time they developed a real determination to fight the trouble out. The coal miners agreed to a six-day week; imports particularly gasoline, were deeply cut; an all-out effort was set under way to step up the export program which is vital to England; more "austerity" was invoked and, what is more, accepted by the people. Meantime, in the Paris Conference on the Marshall Plan program, the British representatives had proposed a much expanded production effort.

Some of the leaders of the British Government, it seemed to me, were less able or vigorous than they might have been. But since that time there have been major changes in the Cabinet, all of them, in my opinion, for the better. Shinwell, whose efforts in behalf of higher fuel production were less than acceptable, has been replaced. And, last week, Dalton, whose performance as Chancellor of the Exchequer was under criticism, was also removed.

In France I had discussions of some length with Ramadier, Prime Minister; Schuman, Minister of Finance, and several other top government officials, as well as Ambassador Caffery and his top economic and political advisers. I came away with the distinct impression that the French are determined to straighten out their currency and balance their budget.

They are also squarely facing their crisis. Perhaps the crisis in England, and the steps taken there, made it easier for the French Government to propose the necessarily painful corrective action that must be taken. But even so, part of the courageous stand is a reflection of Ramadier, of whom I got an excellent impression. I thought him a middle-class type of Frenchman of the best character, intelligent, sincere and honest, willing to stand by his principles. He did what had to be done in cutting off all imports but wheat and coal. He even cut the bread ration to one-fifth of the prewar average consumption. This was courageous action to meet the facts of the situation. It has been rewarded by Communist-led demonstrations against him, and by strikes in part for political purposes.

Much is to be heard in France about De Gaulle. I believe his growing political power is important. I do not want to predict because I do not think I know enough to form a precise judgment, but I have the impression that De Gaulle is representing more people in France every day. The recent municipal elections proved a strong trend toward De Gaulle's anti-Communist program.

The re-established Comintern or Cominform—Committee of Information—set up by the Russians may serve actually to drive out of the ranks of Communist voters numbers of people who had been there chiefly because they were discontented and dissatisfied. It could be that they may head into something like De Gaulle's party or a combination of other parties.

You cannot consider the French economic situation without bringing in the German aspects. Coal from the Ruhr is, of course, vital to the French, and I believe the French are willing to recognize the need for restoring the German economy. At the same time, they want to be very sure that their security is protected when German industrial production is brought up to a higher level, and that Germany does not become a menace. Security is necessarily a vital factor in French thinking on the subject.

German Situation

In Germany, the food problem is of overwhelming importance. As elsewhere in western Europe, the crops have been bad. But the situation in Germany is not one which, as in France, could be much improved with a few good harvests. Instead, it is the result of the division of Germany into two parts, the Russian zone and the three western zones of the French, British and Americans. The western zones have the addition of more than five million Germans driven out of the territory that now belongs to Poland. But this western area was always the poorest agricultural land, always dependent partly on the outside world and partly on eastern Germany for food. It cannot live without those food imports and consequently we are feeding it, from the produce of American farms. And we are paying for it.

General Clay properly conceives of this problem as getting Germany off the backs of the American taxpayers. This cannot be done by growing more food in the western zone; there is not the land and resources to do it. The solution must come, therefore, through increased German industrial production, so that products of German factories may be exported and thus earn the money to pay for the necessary food imports.

I have always had the highest regard for General Clay's ability, but even so I was surprised at how well he has done in retaining good officers and civilians on his staff and in his administration so long after the war. He and they are doing a first-class military government job; as good as can be done, I believe.

Italy's big problem, as I saw it, again revolves around the German trouble—specifically the loss of the German market. A large part of Italy's exports used to go to Germany and Central Europe, and in return she got wheat and the coal without which her industry cannot operate. The collapse of Germany has hit Italy. I should say, more seriously than any other country in western Europe, although Belgium and Holland, closer physically, are grievously affected too.

I returned to Paris at the time when the Marshall Plan report of the Paris Conference was in its final stages. That report, the reception it got here, the three corollary reports to it prepared here—the Krug report, the Nourse report and the Harriman Committee report—all strike me as most encouraging manifestations of earnestness and intelligence on both sides of the Atlantic, in working out a fresh and promising

solution to the world's economic problems.

Even more encouraging, I feel, is the excellent program embodied in the Cabinet's recommendations and in President Truman's message yesterday, which the Administration is proposing to meet the situation, and the serious and understanding reception to the idea of a Marshall Plan and of interim aid which Congress has accorded. This understanding, this willingness to be bold and generous in helping Europe regain its equilibrium and in aiding it to fight its way to economic life is in part a recognition of the validity of some of those clearly observable facts that I mentioned at the outset. It shows an appreciation of the fact that, if Europe starves and freezes this winter, there will certainly be chaos and confusion, and that from that chaos and confusion can only arise political pressures which will endanger the peace of the world.

I believe there is a realization throughout America that unless we give help to Europe, and promptly, conditions abroad will deteriorate with catastrophic speed. I have no desire to predict precisely what will happen; I am not convinced that the result will necessarily be Russian Communism, as seems to be generally assumed. But inevitably circumstances will push Europe to one extreme or another; and in either event create a situation vastly more difficult for us to deal with. In that event, a Marshall Plan program of the general proportions now under consideration would prove to be—to quote a much-used but nevertheless accurate phrase—"too little and too late."'

Will Marshall Plan Work?

As I say, I believe the American people understand this. But they also ask a perfectly proper and natural question: "Will the Marshall Plan work?" They say: "Suppose we have this program and spent $20 billion in four or five years. Will it save western Europe? Will it preserve among those 16 participating nations our ideas of the democratic way of life?"

I don't think anyone can give categorical answers to these questions. I believe you are entitled to doubt anyone who tries to predict what will happen. But one can give, with a high degree of certainty, an answer to the alternative proposition: If we fail to enable the western Europeans to escape wholesale starvation and freezing, then the worst will happen. And it will be for keeps. If we save them now, we must admit that the situation may be changed later on. But if we don't save them, we will lose all we fought for in a very important area of the world. And we will not have another chance. We now have a chance to take a calculated step, a calculated risk, knowing that we may either succeed or fail; but also knowing that if we do not take the step we fail beyond any doubt.

Not A Gilt Edge Investment

We cannot omit taking this step just because it is not a gilt-edged investment. It is a speculative investment that we must make to protect ourselves on a distant front, lest we be forced to protect ourselves on our home front.

Unfortunately, we are still in a kind of war. The shooting phase may be over, but peace has not yet been achieved. We are still obliged, therefore, to take some of the risks that one has to take in war. And more important, we are still obliged to make some sacrifices that are essential in war.

For future security, for the kind of a peace we want, we must now be prepared to make a maximum effort, even at some costs. Primarily, we must conserve food, to save western Europe from starvation and the inevitable social, economic and political consequences of starvation. We must be prepared to submit to certain difficulties that arise when we share with Europe items already in short supply here.

President Truman, it seems to me, faced this situation squarely in his message to Congress yesterday. Without mincing words, he proposed certain measures, which he admitted were drastic, to help us secure the food and raw materials which Europe must have. Wisely, it seems to me, he asked for the authority to impose price controls and rationing if the situation should make such steps necessary. But first he repeated his urging that all of us, whatever our role in the country's economy, take voluntary action to minimize and perhaps even avoid the necessity for extensive Federal controls.

Food, Our Greatest Contribution

The place where we can all make our contribution is certainly the food front. I submit that the need for an over-all program of food conservation, for a revamping of our national usage of our food supply for next year is overwhelming. You will agree with me, I believe, when you consider the consequences of the lack of adequate moisture at the right time throughout an important part of our winter wheat belt.

We have had seven fat years in our cereals harvest. For the past three years we have had more than a one billion-bushel wheat crop. From the 1946-47 growing season we were able to export about 550 million bushels, and even so as I have tried to describe earlier in my remarks, Europe has been left on short rations.

This fall, however, has been the driest in 60 years in Kansas, Oklahoma and the Texas Panhandle. Fortunately, just over this last week-end, there have been some life-giving rains in that area. But much wheat has already been lost. Worms and insects have consumed some of the seed during the October dryness. And even with the present rains, the back of the drought has not been broken. Most important of all—something that must be emphasized again and again—even if the rains continue, even if the weather for the next several weeks and through the winter is the best possible, the wheat harvest can at best be only "normal." That is, we will not have another bumper crop year.

We have here, then, a situation which at the best will be unsatisfactory and, if the rains do not continue, may prove disastrous.

We can hope for a bumper corn crop to help out the, at best, "normal" wheat crop, but in any event the fearful need of Europe plus the end of our seven fat years necessitate a reconsideration of our national food pattern. We must cut down on our domestic consumption of wheat and wheat products.

During the shooting phase of the war, no one wanted to be in a position of feeling that he had done less than he might have. So it is now; all of us must be able to feel later that we have done everything possible for the benefit of the world and for ourselves, and for the people of Europe.

Their will to recover is strong and their hope is high. They are good people, living in good lands. They have the skills, the determination, and in large part the equipment and the resources necessary for success. But war and weather have for the time, perhaps for some few years, put them in a position where they need a leg up from us. Our help is not being given to let them live as beggars, so they can beg some more. Rather, it is being given to help them into a place where they can work and produce the goods that will make them independent of aid from America. Surely there can be no project more worthy of our country and our people than to help other men to stand free and on their own feet.

Prosperity or Depression in 1948?

(Continued from page 7)

round on the wage-price inflation spiral.

Why am I so sure that there will be no depression in 1948? Well, first, there is too much purchasing power loose in the world today.

Second, while I have never taken much stock in the "backlog-of-customer-demand" theories, especially in America where people buy, not because of need, but because of wants awakened to a great extent by salesmanship, there is still dearth of some products; also, there is a shortage of housing relative to need as well as relative to present good-time demand. Despite almost prohibitive prices, a large housing program has at last gotten under way. In the past, high level activity in construction in peacetime has always meant prosperity.

Third, the demand for steel, iron, coal, oil, and several other basic materials is so great that even a substantial decline would still leave them at prosperity levels by any past standards.

Fourth, while export demand will drop from the recent abnormal levels, the fact that both Republican and Democratic leaders agree on the need for aid to Europe assures a substantial export volume.

To focus this "guestimate" on retailing, it is my judgment that department store unit sales will continue to drop. The high cost of living, the high prices of commodities, the high taxes, and most important of all, more available hard goods will cause physical volume to drop. If we have another round of wage increases, dollar volume may hold its own, if not, in all probability, there will be a moderate drop even in dollar volume of sales, especially in soft goods.

It may be "gilding the lily" to tell you to watch inventories and, even if not, you have heard the cry of "wolf, wolf" so often, in the last few months, that it must be getting monotonous by now, but I want to say just that. It is better to ride your inventories and lose a few sales than to have your inventories ride you and lose your store.

Also, most retailers have now come to the point where credit policies should be tightened. Don't go overboard on relaxing installment terms and conditions. It is better than an even chance that some sort of qualitative, consumer credit controls will be inaugurated in Washington. In any event, remember that, as a general proposition, the customer who is paying you for what he bought in 1948, will not be able to buy as much in 1949!

Conclusion

In conclusion, while physical volume will undoubtedly drop in 1948, prices are another matter. If government, if labor, if capital, persist in pursuing the inflationary policies of the last two years—and I see little indication of a change—we shall have another round of inflation instead of a badly needed price readjustment. With all the emphasis of which I am capable, I warn government, labor, and capital that postponing the day of economic reckoning can only compound the penalty which we all will suffer.

Monday, the President of the United States, recognizing the serious danger of inflation faced by the country, made the following recommendations to the Congress:

(1) Credit control—primarily qualitative in character;

(2) Allocations of rare or scarce commodities such as grains, steel, and others;

(3) Continued rent control;

(4) Ceilings on commodities which have a direct bearing on the cost of living;

(5) Rationing of commodities in short supply;

(6) Restriction of commodity speculation;

(7) Further control of exports;

(8) Authority to allocate transportation facilities;

(9) Wage control in industries where price control is being instituted.

It remains to be seen what the Congress will do. Certainly the country can stop inflation if it wishes to do so.

I repeat: We still have a choice of which road our economy will travel next year. Whether it will be that of boom and bust or the other road of a moderate and wholesome economic readjustment, will depend on the policies of government, labor, and capital in the months immediately ahead. Until these policies become more evident, we can only hope for the best.

ABA Opposes Consumer Credit Control

(Continued from page 17)

them of the means for purchasing out of their incomes the things they need badly enough to buy at present prices.

We believe that this fact is particularly applicable to millions of young men who have now reentered civilian life and are in the process of creating homes and families. Men of this type, who had little opportunity to accumulate substantial cash reserves during the war, and who for the most part are employed in positions of relatively low income, are particularly worthy of credit consideration. Yet they find themselves unable to meet the high cost of living and at the same time to pay cash to acquire goods with which to advance the standard of living of themselves and their families.

A striking demonstration of this fact has recently been provided in the mass cashing of Armed Forces Terminal Leave Bonds by the young men and women who owned them. Over a billion dollars of these bonds were quickly cashed in order to provide cash for the purchase of goods and services urgently needed by these men and women.

This mass redemption of the Terminal Leave Bonds provides a significant illustration of what could happen were the public to find its credit sources again restricted.

The inflationary pressures on prices do not stem from installment lending and installment buying but from the vast purchasing power in the hands of the public generated by the wartime fiscal practices of the government and continued excessive spending by government. These facts appear to be overlooked in the discussions about inflation.

The use of consumer installment credit does not necessarily pyramid demand for goods. As a mortgage on his income, every installment loan secured by a person for the purchase of a given piece of merchandise is just so much money that cannot be spent by him for something else. It is inflationary only to the extent that it increases total bank credit, and up to this point, the increase has been only a minor portion of the total factors which have expanded bank credit as an element in inflation.

For the reasons given, we do not believe the curtailment of consumer installment credit will accomplish the purposes of the resolution before this Committee. On the other hand, if put into effect, it will have consequences which have not been foreseen and will affect adversely the groups already mentioned, whose ability to acquire needed goods has been restricted the most by the inflationary price spiral.

So far as the business community is concerned, the adverse results will fall most heavily on the business men with small financial resources who rely upon credit sales to supply the volume necessary to cover their expenses. Deprived of customers by the imposition of severe credit terms which cannot be met by their patrons, such merchants will suffer, some of them even to the point of extinction.

Consumer credit control was instituted in September, 1941, as a wartime measure designed to reduce the demand for peacetime goods, in order to facilitate the transition to production of war goods. It was in effect only three months when the war broke upon the country in all its fury. The attack on Pearl Harbor might be said to have practically ended the need for it. From then on, there was no question in the public mind about doing without things it wanted in order to defeat the enemies, it is doubtful if Regulation W had much effect. Restriction of the production of consumer goods took care of the situation. For the most part durable goods could not be had.

Despite consumer credit control and throughout the period in which such control was in effect, both during the war and for two years after it ended, prices continued to rise and the cost of living continued to mount. On the other hand, as to the argument that freedom from credit control will stimulate the use of consumer credit to such a degree that it will greatly increase the demand for goods and further the inflation of prices, it is worthy of note that in the weeks since Regulation W was permitted to lapse, there has been no evidence of a significant rise in the use of consumer credit. Moreover, consumer credit lenders have, with few exceptions, kept their terms within reasonable bounds.

The nation's banks are the largest providers of consumer credit for small borrowers today. The schedule of down-payments and terms that has been suggested by the American Bankers Association is essentially conservative, and it has met with almost unanimous acceptance among the nation's consumer credit lenders. It may be possible to cite isolated instances in which some marginal lenders have extended terms that a bank would not grant, but they are clearly in the minority and in most cases represent the outer fringe of installment lenders.

We see no need to reimpose broad and sweeping restrictions upon the vast majority in order to hamper unwise lending practices of the distinct few. However, to banking as a whole, it makes no appreciable difference in terms of business volume whether or not consumer credit controls are reestablished. Although the banks are the largest lenders in this field of credit, they nevertheless have confined their lending to loans that are sound, not only for the banks and for the nation's economic safety, but also for the financial well-being of the borrowers. We feel that there is a definite social and economic need for consumer credit on the part of low income groups, and that the banks, as leaders in the field, should continue to serve the needs of those groups within the framework of a sound lending policy.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The statements by Treasury Secretary Snyder and Reserve Board Chairman Eccles, before Congressional Committees seems to have been pretty well expected by the money markets, since prices of government securities were hardly effected by these remarks and requests. . . . It is believed that much water is likely to flow under the bridge before additional powers are granted to the money managers. . . . Even, Mr. Eccles, is not so sure that he wants them. . . . This would appear to indicate that the political factor is not to be taken lightly when it comes to action by the powers that be, against the forces of inflation. . . . Likewise, quantitative credit controls, such as larger reserve requirements, which have been asked for, are not likely to solve the problem. . . .

A DILEMMA

Both Mr. Snyder and Mr. Eccles now seems to feel that higher interest rates may not halt the inflationary trend in loans. . . . Could it be that the authorities have a bull by the horns and don't know how to let go of it? . . . Can savings bonds sales be stepped up with dropping government security prices? . . . Are the powers that be, now trying to change the bad psychology that prevails in government market? . . . It seems as though investors will have to be convinced that the downtrend in prices is over, before they will be willing to alter their attitude toward Treasury securities. . . . When this will take place is anyone's guess. . . .

SPOTLIGHT

The longest bank-eligible issue, the 2½% due Sept. 15, 1967-72, seems to be occupying the spotlight in the government bond market for the time being. . . . This bond has been under considerable pressure because the feeling appears to be quite general that the differential between this security and the longest tap bond will continue to narrow. . . . The three-point spread between these obligations that has prevailed for some time has already gone by the boards. . . .

The reasons given for expected lower prices in the longest bank-eligible are: (1) the increase in commercial loans (2) larger demands for mortgage money, (3) credit restrictive policies of the authorities, which are causing liquidation of government issues in order to maintain reserves. . . . Some of this has been in the longest eligible. . . .

SHORTS PREFERRED

There is no doubt that as risk assets increase in the banks, which is the case now, these institutions will seek more conservative positions in Treasury obligations, which are the short-term issues. . . . This is taking buying away from the longest bank bond. . . . Nevertheless, there seems to be no need for the authorities to support the longest eligible obligation at present levels, because there appears to be no reason why a price about the same as that of the longest tap issue, would have too adverse an effect upon the government market, or the banking picture. . . .

How far the decline will go in the longest eligible will depend upon the restrictive action of the authorities and the kind of controls that may be granted by the Congress. . . .

SUPPORT

The longest tap issue is holding well at about the 101 level, because the authorities have had to step in and support it, since their credit restrictive policies have apparently carried government bond prices down farther than was expected. . . . There is no doubt that the powers that be have put uncertainty into the market for Treasury issues, and have stopped the trend from shorts into longs. . . . They have also created a condition that is causing investors to be so cautious that they are now scared of practically all government obligations, except the most riskless ones, Treasury bills. . . .

The desire for liquidity as well as the fear of lower prices and higher yields is resulting in many holders turning in maturing issues for cash instead of taking the securities that are being offered in exchange for maturing obligations. . . . Such an attitude could have an adverse influence upon the refunding operations of the Treasury. . . .

LIQUIDATION

New lows, especially in the eligibles, is causing liquidation not only by banks but also by non-bank investors. . . . While volume has not been large it has increased in the past week, with more securities now appearing in the market for sale from out-of-town deposit institutions that have not yet been troubled too much by tight reserve positions. . . . They feel that lower prices in the longest bank obligations are a safe enough bet to warrant liquidation at current levels. . . . If prices go down as they anticipate, they will buy the securities back and get a better return. . . .

On the other hand, if they should stabilize at or near these levels, then they can repurchase the issues sold with assurances that the down trend is over and more settled conditions will be in the offing. . . .

BUYING BILLS

Non-bank investors are still selling eligibles, a good many of which are in the intermediate-term maturities, particularly the 2s due 1952-54, the 2s due 1951-53, and the 2s due 1950-52. . . . Scattered selling by these institutions has been in evidence in the 2¼s due 1956-59, the 2½s due 1956-58 and the 2½s due Sept. 15, 1967-72. . . . It is reported that the funds obtained from the sale of these eligible issues has been put into Treasury bills. . . .

REDISCOUNT RATE

Rumors are making the rounds that the rediscount rate will be increased shortly after the certificate rate goes to 1⅛%. . . . This would be done so that certificates could not be pledged at Federal for borrowing at a profit. . . . Reports of increases in reserve requirements in Central Reserve Cities have added to the general unsettlement in the government bond market, and gave prices another jolt, particularly the longer-term eligible obligations. . . .

The very large war loan call that was recently issued and which will be payable Dec. 1, undoubtedly indicates very heavy cash repayments of the Dec. 1 certificates. . . . This might be the beginning of a move on the part of holders to take cash for maturities and wait for higher yields before putting these funds to work.

Danger of an Increase in the Velocity of Circulation

(Continued from page 3)

⅞% has not increased the amount of bills held by the commercial banks to any great extent. The recent tightness of money resulted in the sale of 1% C.I.'s and Notes to the Federal Reserve Bank, when only recently the same banks were quite happy to hold one-year Federal obligations at a yield under ⅞%.

Unsettled Government Bond Market Inflationary

(5) On the contrary: Further unsettlement of the government bond market may have definite inflationary effects. An increase in the velocity of circulation could more than offset the decrease of the total money supply. The reduction of the outstanding public debt is deflationary but it could be offset by an increasing unwillingness of present investors in government securities to hold on to any of them. It is much safer for a commercial bank to make a 90-day loan on commodities at 1½% than to hold 2% 51/49 bond even if they decline to a 1½% yield. The interest rate for commercial loans can be adjusted almost instantaneously; the income on government bonds is fixed. A loan may or may not be renewed the loan volume can easily be adjusted to the deposit total. If government bonds cannot be sold to, or hypothecated without penalty with a Federal Reserve Bank, they become a permanent investment unsuitable for a bank with demand deposits. There are no buyers of consequence for bank-eligible bonds outside the banking system. And it is safe to assume that if the Chase Bank has to sell bonds because of a general tightness of money, the National City Bank will not have excess funds with which to buy them either at 100, 90 or 80.

A decline of the long-term government bonds below par would, in our opinion, also monetize the debt. Once a possibility of a decline of government bonds below par is established, their holding would not represent a greater safety of capital than that of high grade corporate bonds. If the risk of higher interest rates is as great in government bonds as in corporate there is no incentive for an investor to hold government bonds in preference to corporate.

The Conclusions

What conclusions can be drawn from the foregoing? We can see that our officials are confronted by a double problem:

(A) To induce the commercial banks to hold short term government bonds at relatively low yields instead of exchanging government securities into commercial loans at the one to six ratio.

(B) To induce the non-commercial bank investor to hold on to his government bonds although better yields can be obtained in the corporate bond market.

Every banker will declare for the record that he is willing to sell the last government bond in order to get the funds for loans necessary to his customers, as long as the security for the loans seems sufficient. We doubt this. Very few banks are willing to make loans if it is necessary to sell securities below cost in order to get the necessary funds. We estimate that 20% of the governments are presently held by the banks at or above market value. Any further decline in prices would rapidly melt away the unrealized profit in the government portfolio. Certain security profits are necessary to compensate for losses on loans which are unavoidable when a business recession occurs. Commercial banks whose income accounts are subject to constant scrutiny by investors would be reluctant to translate book-losses into losses evident in the yearly statements.

Most ineligible bonds are held at or near par, and even a decline under par would not deter a mutual company, trust fund, estate or private investor from switching, once the greater capital safety of a government bond "has been exposed as a myth." Reserves are sufficient to take care of losses, and higher yields would overcome the reluctance to openly reduce reserve funds.

Obviously the only inducement to prevent the investor from switching from a low-yielding to a high yielding security is safety of principal. As corporations have very little to worry about interest rates, the safety of principal in the case of government bonds, and the non-safety in the case of corporate bonds will have to be proven conclusively to the institutional investor. The recent support given to the government bond market will not answer the question in the investor's mind whether this support will always be forthcoming. It will have to be proven in the next six months that the government is still willing and able to hold government-bond prices above par.

An estimate of the monetary movements during the first six months of next year would have to be full of assumptions. However, at present these points stand out. The estimated surplus for the fiscal year 1947-48 is probably too low. On the other hand the stop-gap aid and other immediate payments to Europe, etc. may consume one to two billion of that surplus. Postal savings social security and other government accounts should show an appreciable cash surplus. Sales of E. F. & G. bonds can be estimated at figures of 1947.

All predictions to the contrary large-scale redemptions of non-marketable government securities has not taken place. The government, therefore, will have appreciable funds at their disposal to reduce the floating debt. Their total, however, will be only a fraction of the government securities maturing within a year which the Federal Reserve Bank continues to buy. There can be no question that the banks will continue to have sufficient funds to expand loans. But the increase in loans and the decrease in deposits will exert pressure on all bonds. A decline of eligible bonds to par would freeze the present holdings of commercial banks. A decline under par may start a selling wave for fear of considerable capital losses.

Stability of ineligible government bonds in spite of a price-decline in corporates will induce the investor to hold on to the governments in spite of higher yields in the corporates and municipal market. The yield-spread will widen.

There can be very little doubt that the authorities have the means to support the market. Eligible bonds can be bought by the Federal Reserve banks; ineligible also by the postal savings, social security and other government trust funds. Furthermore, the government could relax restrictions on holding ineligible bonds by commercial banks against time deposits. During the past year, commercial banks bought corporate bonds as investments for their ever-increasing thrift accounts. If they were able to buy high-yielding government bonds, this move—instead of being inflationary as our expounders of a mechanical money theory would let us believe—would have certain deflationary effects by reducing the scramble for certain corporate securities, mortgages, etc. The present yield spread between equipment trust certificates and high-grade utility bonds proves the point. Furthermore, time loans would be reduced. The more than one-year credit would be concentrated where it belongs, viz., insurance companies, savings banks and similar institutions. The result would be a much quicker saturation of these institutions than is foreseeable today when commercial banks compete with the traditional long-term credit agencies in this field.

We believe that the amount which would have to be bought by the authorities to maintain prices on government securities would be very small. Once the willingness of the government to pay cash for government bonds is proven beyond doubt, government bonds will continue to be "riskless assets" and "secondary cash reserves." As present yields on government bonds are sufficient to pay for overhead and dividend requirements of all institutional investors, the retention of government bonds at a time of price uncertainty in the corporate bond and commodities markets can be classified as prudent. Any portfolio manager who maintains his government bond position under these circumstances would be free of reproach. Retention of government bonds would soon stop the expansion of loans.

If government bonds were to drop in price under par and commensurate with the yield increase of corporate bonds, a retention of government bonds would be open to question. Any banker holding government bonds under those circumstances would be in a less favorable position to take advantage of the business possibilities that develop.

Resume

The task presently confronting our monetary authorities, viz., to stop inflation by monetary means seems insoluble if we approach it with a completely mechanistic point of view. An increase in interest rates in itself has never and will not in this case stop the inflation due to the loan-deposit circle. The increase of interest rates is furthermore limited by the huge amount of the floating debt and the necessity of keeping interest rates within budget estimates.

Inflation can only be stopped by an interruption of the loan-deposit circle, and this has to be accomplished by psychological means. The ways open are manifold: they include yield and price stability of government bonds at a time when loans to other debtors increase in risk. Fluctuations of government bond prices to an extent where government bonds could no longer be regarded as "secondary cash reserves" would increase switching operations from government securities to high-yielding private loans and securities, thereby enhancing the loan deposit circle with its disastrous inflationary effects. Inducing present investors to hold on to their government bonds by psychological means is the only way of stopping monetary inflation—unless new legislation can be obtained.

Firm to Be Known as Mallory Securities

BIRMINGHAM, ALA. — The name of the Alabama Securities Corp., Inc. will be changed as of Jan. 1, 1948 to Mallory Securities Corp., Inc. Mr. Paul H. Mallory and Mr. E. B. Montgomery on Sept. 26, 1947 purchased the entire assets of Alabama Securities Corp.

Mr. Mallory was with Roy Gridley & Co. until 1938. He entered the U. S. Navy in 1941 and received his discharge for physical disability in 1943. E. B. Montgomery is senior Vice-President of the American Life Insurance Co. of Birmingham.

John B. Stephens Dead

John B. Stephens of Clokey & Miller died at Medical Center, Jersey City, N. J. on Nov. 17.

Is Capitalism the Cause of Wars?

(Continued from first page)

leged to have "egged" on first one nation and then its opponent in his devilish plans to promote the sale of war munitions.

But if that was actually the case in the "long, long ago," it is decidedly out of date and out of mind in this day and generation.

Dollars Win Wars

Money in billion dollar packages and almost unlimited national credit and manpower are the absolute potentials which provide the indispensable mechanism with which to win gigantic wars in this Billion Dollar Age.

In reckoning the cost of modern warfare, we must take into account the untold billions of dollars, francs, pounds sterling, marks and lira, besides many millions of men at the front and at home necessary to manufacture and to utilize present day destructive mechanical weapons of war.

And, too, the cost of world-wide propaganda and the vast indeterminate property losses and postwar maladjustments to the economy and life of the contending countries during this and future generations must also be seriously reckoned with in the final accounting.

Do Victorious Nations Win Wars?

In these modern times, the victorious nation or nations are in fact the biggest losers now so evident in the global war just concluded, for the United States is being called on to feed and finance both the Old World victors and losers to the opening tune of a possible $15,000,000,000 to $24,000,000,000, and that prodigious sum, if and when expended over the next four years, will come out of the pockets of United States citizens and most likely will never be repaid in cash or in kind.

Right here, it would be interesting to ask the Soviet trio—Stalin, Vishinsky and the Politburo—a few simple questions, viz:

(1) What nation befriended and made it possible for the Soviet to chase the Germans out of Russia at a cost of $11,681,000,000 to the befriending nation against which the Soviet has repaid a paltry two million, two hundred thirteen thousand dollars?

(2) What nation helped the Russian satellite countries with an additional $1,287,644,000 in World War II?

(3) What nation dumped $66,000,000,000 of its taxpayers' hard-earned money into Europe, Asia, and other countries to help her Allies win World War II?

(4) What nation loaned the Allied countries in World War I the aggregate sum of $14,791,340,307.53, of which $11,435,365,215.21 principal and $3,355,975,092.32 interest accrued, remains unpaid to date?

(5) Senator Harry Byrd of Virginia is on record that $19,000,000,000 has been spent abroad by the United States in postwar aid since 1945.

Perhaps this is the "Dollar Slavery" and the "American Imperialism" which Mr. Vishinsky had in mind when he delivered his recent harangue at Flushing Meadow Park.

And yet these totalitarian "mouth-pieces" have the barefaced impertinence to tell us that we are a "Dollar Country" and that Capitalism wants and will provoke another war with Russia for gain.

What Country Is The Heaviest Loser?

The writer thinks it is a fair statement to say that any man, regardless of his nationality, will admit that this country has been the heaviest loser in the last two World Wars in which we aided the Allied countries to win. Who, for instance, can figure the amount of the losses caused to this land of ours by the political, social and business maladjustments and broken spiritual values occasioned by World Wars I and II.

Yet there are those at home and abroad who hate our free enterprise system and growth, and who have the audacity to assert that the du Pont Powder Co., the Steel Corporation, General Motors, Standard Oil, and other similar concerns were prime movers and instigators of World Wars I and II, when any sane person knows that it was Germany which touched off the sparks that caused these conflagrations.

In previous articles published in the "Chronicle,"* the writer has consistently attributed these great World Wars to "imperialism" and to everything which imperialism implies: Pan-Germanism, foreign trade, markets for raw materials, self-aggrandizement, territorial gains and domination by force.

Every level-headed person who stops to consider what international war means to Capitalism—invested capital, industrial enterprise and corporate property in this country — will agree that Capitalism's preference would be to perpetuate peacetime business conditions and not to encourage or abet war with its manifold destruction of wealth, property, and manpower.

Exorbitant Wartime Taxes

Certainly every informed person knows that the peacetime industries which were converted in World War II to the mass manufacture of munitions, planes, ships, bombs, tanks and guns had to forfeit 95% of their excess profits to our government. Among the taxes which corporations in the New York area were subject to in wartime were the following:

(1) 95% Excess Profits tax.
(2) Corporation Capital Stock tax.
(3) Federal Income tax.
(4) Federal Declared Value Income tax.
(5) New York State Franchise tax.
(6) New York State Unemployment tax.
(7) Federal Unemployment tax.
(8) Social Security Old Age tax.
(9) New York City Occupancy tax.
(10) New York City Franchise tax.
(11) New York City Sales tax.
(12) Real Estate and other local taxes.

Moreover, the management executives and directors as well as the stockholders, bondholders in these corporations, and their working personnel were obliged to pay heavier taxes on their earnings in war years, and on everything they ate, wore and bought, than in peace years. An executive, for example, earning $150,000 a year would, according to Karl J. Wiemer, tax expert and C. P. A., have only $37,700 left for himself during wartime or at the present rate. In spite of the fact that over two years have elapsed since the war ended, Congress has not been able, due to President Truman's vetoes, to reduce the exorbitant wartime taxes on personal incomes. As an aftermath of war, need we point out what inflation costs everyone of us in higher prices and an unbalanced economy?

Why Industry Does Not Prefer War

Make no mistake about it, the industrial and business executives will tell you that the normal peacetime years are more conducive to prosperous financial conditions than war years and that postwar inflation years are invariably followed by deflationary losses, unemployment, maladjustment of prices and debts, breeding labor unrest, strikes and other uncertainties.

Another outstanding reason why capitalism does not favor war is the tremendous debt that war causes and our present $258 billion debt means that industry, business corporations and individual workers will have to meet the extraordinary burden of taxes for generations. At present date, for instance, the per capita debt for every living man, woman, and child in the U. S. is $1,962.

The writer has not dwelt on the greatest loss to our country and to mankind in war, which cannot be figured in dollars and cents —the death loss and lifelong injuries to the youth of our land—the Republic's most precious possession.

Does War Pay?

No, Mr. Vishinsky, your sophistry doesn't make sense! **Forget, if you can for five minutes, that you are a Communist, and if you are honest with yourself, you will reverse your assertion that capitalism in the United States will be the cause of a war with Russia or any other world power. For war does not pay a country like the United States because we have no interest in territorial expansion or aggrandizement in any form.**

A Reminder to the Wise

May we remind you, Mr. Vishinsky, that Russia was expelled from the League of Nations by the member nations of that organization because of aggression against little Finland? Before any peace settlements have been arrived at with her Allies in the late war, Russia, according to Winston Churchill, has one-third of Europe under her control, having appropriated or seized Lithuania, Latvia, Estonia, some of Finland, East Prussia and Hungary, half of Poland, the entire Balkans (excepting Greece and Turkey), Outer Mongolia, and that isn't all.

War Is Wholesale Murder

In a communication to the New York "Times," Dr. Francis Trevelyan Miller, historian and head of "The Historical Foundations of New York," stated:

"Fifteen billion human beings have been killed during wars since the beginning of time—seven times more than the entire world's population today. As one authority recently pointed out . . . during the last three thousand years there has been war in some part of the world 12 out of every 13 years. More than 8,000 peace treaties have been made with an average life of 2½ years."[1]

It is a matter of cold record that the actual cost of wars to the United States taxpayers from the Revolution to and including World War II totals $412,743,561,885 and our casualties in the same period were 2,100,174 men. The records disclose that casualties on both sides in World War II totaled approximately 44,789,630,[2] while casualties in World War I reached 37,508,686 or 57.4% of the total mobilization of 65,038,810 men on both sides.

Let Us Reason Together

Any person who is not a pervert cannot but know why the United States prefers peace and tranquillity at home and abroad and why our country profits most in peacetime.

From the standpoint of cost in human, spiritual and property values, Montaigne's wisdom that "there are some defeats more triumphant than victories," applies more significantly to our country than any other in the present international situation.

A Challenge to Mr. Vishinsky

And now, Mr. Vishinsky, please write this down in your Communist book:

"The United States of America never started a war without just cause and never lost a war."

Mr. Vishinsky, my countrymen love peace more than anything else in this world and will not visit the curse of war upon any great power, be it big or small, strong or weak, unless we are attacked first!

Throughout our entire history, "Live and let live" has been and is our country's endeavor and goal.

"Above the voices of the world
We hear the angels' song;
Amid the hate and greed of war
We know that love is strong.
For long ago God dreamed a dream
Of peace, goodwill to men.
He knows men will remember
And dream His dream again."

*Writer of 'Why a New League of Nations Will Not Insure Permanent Peace,' in the 'Chronicle,' Mar. 9, 1944, and a 'Reply to Critics' of this article, Mar. 30, 1944, and 'Peace by Force in an Uncivilized World,' Nov. 16, 1944, and 'Are Americans Isolationists?' Jan. 11, 1945, 'The Failure of the White Man's Civilization,' Mar. 22, 1945, and 'How Pres. Truman Can Regain His Lost Prestige,' Feb. 13, 1947 issue.

(1) Above computation includes the long era of tribal days when whole populations were continually exterminated and nearly every male died in warfare. Also the many generations when war was the chief occupation and whole "civilizations" were destroyed in wars.

(2) Source: "World Almanac," pps. 44 and 45 of 1946 issue.

Consumer Credit and Business Trends

(Continued from page 9)

a Committee for Co-operation with Finance Companies, of which I am a member. I know from meetings of the entire body and of this Committee that great concern is expressed in all quarters with regard to the trend of terms and down payments, and everyone was asking whether banks and finance companies would hold the line, and while I do not pretend to speak for other banks, I know from remarks made by many bankers that there would be most serious consequences were there to be deviation from the standard terms. My own bank, as I am sure you all know, has strongly supported the finance companies for many years, but I know that the attitude of my Board would change radically if there is any substantial deviation from the terms recommended by your Special Committee and the American Bankers Association.

(2) That very good friend of the finance companies and pioneer in lending them moneys, which helped to advance the industry to its present very prominent position, Mr. Arthur W. Newton, retired Vice-President of the First National Bank of Chicago, made an address on April 2, 1937, in which he said, speaking about competition in the finance business:

"If this competition had confined itself to rates, it would have been sound and would merely have resulted in a healthy lessening of profits. Unfortunately, as we all know, it has taken that most vicious course—a competition in terms. Of course, smaller down payments and longer terms have; with the growth of automobile sales, resulted in using up the extra capital and credit that have been injected into the business."

How right Mr. Newton was in condemning this practice, and the very serious consequence of this extension of terms, is evidenced by the repossession figures for that period. Remember that Mr. Newton spoke in April of 1937. In 1936, 5% of all cars financed were repossessed. In 1937 this jumped to 9%, and in 1938 to 15%. The figures show that it was this period that brought the greatest losses to finance companies — much greater than any other period, including the early '30s. This is very visual evidence of the serious consequences of the extension of unsound terms.

(3) You have all been reading in the papers that a fight will be made to re-control instalment credit. I believe that it has been announced on the radio that such a recommendation will be presented to the Special Session. Quoting Mr. Joseph M. Dodge, President of the American Bankers Association:

"The only way banks (and of course that includes finance companies) can keep themselves free from multiplication of government regulation is by a voluntary and coordinated self-discipline in the conduct of their business, which embodies a full recognition of the relationship of their business to the functioning of the economy; with full recognition that the future status will depend on right action under these circumstances."

I do not need to tell you that one of the surest ways to have recontrol of instalment credit on a drastic and possibly permanent basis would be for banks and finance companies to extend long terms and low down payments in the present cycle. I do not believe further evidence is necessary.

Reasons for These Consequences:

While I doubt if much need be said as to why the above consequences would be true, possibly it should be touched upon. One of the most potent reasons is the one I mentioned in connection with Mr. Newton's speech; that repossessions and losses jumped tremendously during that previous period. I have figures showing that in some of the prewar years new car retail over 18 months was as much as 37%; new cars under one-third down as much as 26%; and used cars under one-third down as much as 34%.

I do not need to quote you gentlemen the present prices for automobiles above new and used, for you are more familiar with them than am I, but it must be perfectly obvious that low down payments and long terms do not mesh one bit with prices that are from 50% to 100% higher than they were at the time these sub-standard terms I have just mentioned were in effect, and which in themselves caused losses. What more severe losses could be sustained with the present prices, and in the present cycle, if unsound terms are allowed, can be left to anyone's horror.

Position of Banks

You gentlemen may well say, "What is going to be the attitude of our bank competition?" You already know that the American Bankers Association terms parallel your own recommendations. In preparation for this talk I telephoned the Chairman of the Consumer Credit Committee of the American Bankers Association. That Committee had just taken a telephone survey of 35 cities and surrounding territory. So, as far as the Committee knows, banks are 100% pleased with recommended terms. An article in the "American Banker" last Wednesday indicates, likewise, that banks are holding the line. I know from personal conversations with many bankers who are in the business themselves that they intend to hold the line; similarly, I know that banking authorities are watching carefully to see that sound terms are observed by the banks, and while I am not empowered to speak for the regulatory authorities, my conversations do indicate that they will strongly look askance at deviation therefrom.

Defense of Dow Theory

(Continued from page 4)

ket caused him to advance his theory which came to be known as the Dow theory. Dow died in 1902. The next year William Peter Hamilton, an associate of Dow's, who was editor of the "Wall Street Journal" from 1909 until his death in 1929, began expounding and interpreting Dow theory in that paper and "Barron's" Weekly.

In 1932 Robert Rhea, who became interested in Dow theory about the time of World War I, began his service, "Dow Theory Comment." This service has been continued, since Rhea's death in 1939, by Perry Greiner, an associate of Robert Rhea, and is now in its 16th year. The writer's Dow theory interpretations have appeared regularly in the Chicago "Journal of Commerce" since December, 1937.

For nearly 50 years Dow theory has been elucidated and interpreted and by men of outstanding ability and unquestioned integrity, both in privately circulated services, and in the columns of highly responsible financial journals. None of these men, nor any other competent Dow theorist known to the writer, ever described the theory, or suggested its use solely in the manner that Mr. May writes of. These men and these publications represent sponsorship of the highest character for Dow theory.

Dow Theorists Are Market Students

I made the point that Dow theorists are students of the market. None of these men could have continued to write Dow theory for upwards of 26 years had they not been students of the market. Hamilton prepared a series of articles in 1921 describing the theory and discussing the workings of it. His articles subsequently appeared in book form under the title of "The Stock Market Barometer," 12 editions of which have been published. In recognition of this contribution to the subject of stock speculation, English economists in 1923 elected Hamilton to fellowship in the Royal Statistical Society.

In 1931, at a personal expense of $3,800, Rhea published "Graphic Charts" making available for the first time a graphic picture of the daily movement of the Dow Jones averages and volume of daily trading. A few months later Rhea employed a college professor to go to the Library of Congress to copy all of Hamilton's discussions of the price movement and of Dow theory, from the files of the "Wall Street Journal." All of these editorials were subsequently incorporated in his book, "The Dow Theory."

In 1932 Rhea completed a series of articles on the "Dow Theory" which appeared in "Barron's" Weekly and which were later published in book form under that title. "The Story of the Averages" was published in 1934 after an outlay of $18,000 in the gathering and tabulating of much statistical data and historical news. In 1938 Robert Rhea's "Dow Theory Applied to Business and Banking" was published.

The type of study and time involved, necessary to the preparation of such books and material, is the kind of study that enable men to become competent Dow theorists. It requires years of study of the market, its movements and characteristics to fit one to undertake the writing of such books and material. Obviously these men had a deep and sound knowledge of the stock market. They were students of the market in the fullest sense of the word, and scholars. Only the uninformed can ridicule and belittle the wisdom and knowledge of such high standing qualified market students.

Dow Theory Is a Philosophy

Dow theory is a philosophy for stock market analysis and interpretation, and the forecasting of the *probable* prevailing major trend and intermediate movements of the market. The knowledge and judgment of the individual determines his success in the use of the theory. Dow theory develops the art of thinking in terms of bull and bear markets; primary and secondary moves; and the conditions that bring about these major and intermediate moves. Dow theory keeps Dow theorists alert for indications of change. *Most of the time competent Dow theorists trade close to points of major extreme.*

Dow theorists do not know the points of major extreme at the moment they are established but they do recognize, (1) the conditions under which major extreme is usually reached; and, (2) the formations indicative of major reversal.

In the "Wall Street Journal," Oct. 25, 1929, with the industrial average 81 points or 21%, below its bull market peak, Hamilton, under the heading, "A Turn in the Tide," said in part:

"On the late Charles H. Dow's well known method of reading the stock market movement from the Dow-Jones averages, the 20 railroad stocks on Wednesday, Oct. 23rd, confirmed a bearish indication given by the industrials two days before. Together the averages gave the signal for a bear market in stocks after a major bull market with the unprecedented duration of almost six years."

That day the industrial average closed at 301.22 and the rail average at 166.51. Thirty-two months later, or on July 8, 1932, those averages were 41.22 and 13.23, respectively. Dow theorists did not know for months after the summer of 1932 that the end of the bear market had been reached though they recognized that it may have been. The following is a full copy of a letter that I received from Robert Rhea July 26, 1932. Copies of this letter were sent to other friends and to "Barron's" Weekly.

"The declines of both rail and industrial averages between early March and midsummer were without precedent. The 35-year record of the averages shows a fairly uniform recovery after every major primary action, and such recoveries average around 50% of the ground lost on the decline are seldom less than a third and more than two-thirds. Such recovery periods tend to run to about 40 days, but are sometimes only three weeks and occasionally three months.

"The time element is in favor of a normal reaction (rally) at this time because the slide-off was normal (the normal time interval of the major declines being about 100 days).

"The market gave the unusual picture of hovering near the lows for more than seven weeks, and might be said to have made a line during the latter weeks of that period.

"Because of all these things, and because the volume tended to diminish on recessions and increase on rallies during the ten days preceding July 21st, almost anyone trading on the DOW THEORY would have bought stocks on July 19th. Those who did not, had a clean-cut signal again on the 21st. Since that date the implications of the averages have been uniformly bullish, and it is reasonable to expect that a normal secondary will be completed even though the primary trend may not have changed to 'bull.'"

I knew Robert Rhea intimately from the summer of 1931 until his death in 1939. I never knew of Rhea prematurely calling the end of the 1929-32 bear market. He and other Dow theorists missed the 1932 bottom, both before and after the event, but they maintained or increased their capital during the 1929-32 decline and they did very well in the last half of 1932, in 1933, in 1935 into 1937, and in subsequent years.

Mr. May trots out all of the arguments of the critics of Dow theory. The critics say that Dow theorists miss much of the moves and they use our figures to prove it. What they do not know or understand is that Dow theorists usually recognize change in relatively close proximity to the extremes at which it sets in. I doubt if Robert Rhea ever had the experience of waiting for confirmation of major change to initially take or liquidate a position. I have yet to have that experience, though I will have it if a bull market is confirmed at the July highs of the averages in the near future.

If the critics bettered Hamilton's warning of Oct. 25, 1929 and Rhea's forecast of July 24, 1932, it is to their credit. If they preserved their capital in the interim better than Robert Rhea, more power to them. If the achievements of the critics since are relatively better than the achievements of competent Dow theorists, have Mr. May tell us of their successes, their methods, and their philosophies.

Bull or Bear Market?

Mr. May says that the industrial average has risen from 163 to 186 without Dow theorists knowing whether it is a bull market or not. He is correct. No Dow theorist can give the answer at this writing, but every Dow theorist recognizes that the major trend can be in the process of change.

Those Dow theorists who presume that this year's rise is the first phase of a bull market, because of the character of the plottings of the averages since mid-May are probably long stocks. Dow theorists who presume that this year's rise is a secondary movement in a bear market, because the conditions of bull market extreme, rather than the conditions of bear market extreme are, and have been, present for more than a year, are probably in a liquid position.

Each of these two groups of Dow theorists are maintaining tentative positions, contingent on confirmation of a bull market. Each group will come out well over any period of time, for they understand the market, but one group may do somewhat better than the other group for a while. Dow theorists would like their critics to properly classify the present market.

Hamilton's Error

Mr. May refers to Hamilton's error of judgment in 1926. He also refers to Norman Wright's "Fallacies of the Dow Theory," and Alfred Cowles' "Can Stock Market Forecasters Forecast?" The critics discovered, as every Dow theorist knows, that Dow theorists were and are fallible in their judgment.

Dow, Hamilton, and Rhea made brilliant contributions to the art of analyzing and interpreting the stock market. Like the Russians, who can see nothing good in this country, the critics of Dow theory see no good in this philosophy. The critics have found the errors of Hamilton and Rhea, but have missed their wisdom and achievements.

Hamilton's judgment of Feb. 15, 1926, was proven to be wrong. But how wrong? Hamilton expressed his personal opinion, on practically a one-day decline from the highest price that the industrial average ever reached, that the bull market was over. The averages had neither plotted a formation of secondary or major reversal, nor was the question of confirmation of major change involved.

The industrial average had closed at 158.30 that day. Two trading days earlier, it had closed at 162.31, the highest in its history up to that time. Before the end of March the averages sold down to 135.20 and over the ensuing 12 months ranged between 166.64 Aug. 14, 1926 and an October low of 145.66. "What an error Hamilton made!" And what an error it would have been if Hamilton had not subsequently recognized that the major bull trend had not changed. One of the advantages of Dow theory is that it enables Dow theorists to recognize their mistakes reasonably soon.

The Cowles Report represents an analysis of the 255 editorials, written by Hamilton over a period of 26 years, which presented forecasts for the stock market based on the Dow theory. According to Cowles these editorials were sufficiently definite to permit scoring of 90 as bullish or bearish. This was done by a majority of five readers. When doubtful, the Cowles group assumed that Hamilton abstained from trading. When bullish, they assumed that he bought equal dollar amounts of the stocks included in the averages and sold them only when he became bearish or doubtful. The study is based on these and other assumptions. *The fallacy of the Cowles study is in its use of unwarranted assumptions.*

There have been three different periods this year when the performance of the market was bullish. I have pointed out all of the bullish plottings and performances in my analyses, yet I have not said that a bull market was confirmed, nor have I made a single purchase of a common stock for any account. Cowles could assume from some of my interpretations this year that I thought that the performance of the market was bullish, but he would have been incorrect in assuming that I bought stocks, or suggested their purchase.

In the 26 years of Hamilton's editorials, there were only seven confirmed bull and seven confirmed bear markets. The value of judging Hamilton's forecasts is in judging them primarily as to forecasts of major trend, and incidentally as to secondary trend. On any other basis the analysis is without value. There is little value in a 3 to 2 decision as to what Hamilton was forecasting. If there was a serious question in the minds of one or more of the five judges as to the forecast, that forecast should not have been counted.

Dow theorists do not run in and out of the market. They may add to their positions on declines of secondary proportions in bull markets, and they may sell on advances of secondary proportions in bear markets, but successful Dow theorists do not materially change their positions for the duration of the major swings. During the course of the seven cycles, there were many indications of primary and secondary extreme to discuss, but there were only 14 confirmations of change of major trend.

Norman Wright must have had a great antagonism towards Dow theory, or Robert Rhea, or both, for he took the Cowles report at its face value, and in addition he recorded the errors of judgment of Rhea. What he failed to see, or at least to report, was that Rhea quickly recognized important change, adjusted himself to it and pointed the changing implications out in his service. It can be said of Rhea, and of other competent Dow theorists, that they erred in judgment frequently, but that they were quick to recognize their errors. It can also be said that they did well in the market.

The critics see the trees but not the forest. The parade of the critics is endless, yet the theory survives. Dow theory is as vital now as it was in the days of Rhea and Hamilton, and its followers are legion.

The field of finance needs more sound students of the stock market—more of the Dows, Hamiltons, and Rheas—and less of those who momentarily attract attention to themselves by their efforts to disparage the creators.

I trust that you will publish my comments in full.

JUSTIN F. BARBOUR.

Barbour's Dow Theory Service, Inc.,
12 East Grand Ave., Chicago, Ill.,
Nov. 10, 1947.

Theoretical Results of Cumulative Gain of $1,000 Invested in Dow Jones Industrial Average on Dow Theory Confirmations of Bull Markets with Liquidation taking place on Dow Theory Confirmation of Bear Markets

Bull Market —Confirmed—		Bear Market —Confirmed—		Gain	Cumulative Value of $1,000 Theoretical Fund on Bear Market Confirmations
Date	Price	Date	Price	%	
6-28-97	44.61	12-16-99	63.84	43.11	$1,413.10
10-20-00	59.44	6- 1-03	59.59	.25	1,434.67
7-12-04	51.37	4-26-06	92.44	79.94	2,580.98
4-24-08	70.01	5- 3-10	84.72	21.01	3,123.24
10-10-10	81.91	1-14-13	84.96	3.72	3,239.42
4- 9-15	65.02	8-28-17	86.12	32.45	4,290.61
5-13-18	82.16	2- 3-20	99.93	21.66	5,219.95
2- 6-22	83.70	6-20-23	90.81	8.49	5,663.12
12- 7-23	93.80	10-23-29	305.85	226.06	18 465.10
5-24-33	84.29	9- 7-37	164.39	95.01	36,025.41
6-23-38	127.40	3-31-39	131.84	3.48	37,278.67
7-17-39	142.58	1-13-40	145.19	1.83	37,960.87
6-15-44	145.86	9- 3-46	178.63	22.50	46,502.06

A. W. May's Answer to Mr. Barbour's Letter

The undersigned cited the historical bull and bear "confirmation points" contained in Mr. Barbour's service because he felt that utilization of this eminent Dow authority's own interpretations was the fairest way of putting the controversial case; particularly as current writings of other Dow theorists leave the uninitiated quite bewildered thereover. He did not identify Mr. Barbour by name because no criticism of him, but only of the Dow Theory, was intended. He perhaps should have added that the interpretations were copyrighted, and if so, regrets the error.

The undersigned believes that the other criticisms voiced in Mr. Barbour's letter have been completely answered in the articles themselves.

A. WILFRED MAY.

Clement A. Evans Opens New Savannah, Ga. Under Simkins

SAVANNAH, GA.—Clement A. Evans & Company, Incorporated has opened a new branch office in the Liberty National Bank Building, under the management of Arthur B. Simkins.

E. J. Duffy to Admit

Edward J. Duffy & Co., 111 Broadway, New York City, members of the New York Stock Exchange, will admit Charles J. Williams to partnership on Dec. 4.

Congress and High Cost of Government

(Continued from page 16)

pass all these bills, it would require billions and billions of dollars.

It is my conviction that the veterans do not want to become wards of the government. They want opportunity. They want the opportunity that freedom gives them—to find their place in life, to exercise their individual initiative in a job with a future, to own a home, and to raise and educate their children. And how better can we fulfill this obligation than to remove the obstacles that debts and excessive taxes constitute to the proper functioning of our free economy.

This brings me to the third major item in the Federal budget, which likewise arises out of conditions created by the war and which makes a return to prewar peacetime budget level presently impossible. I refer to expenditures for international affairs and finance.

The original budget estimate for this item for the current fiscal year 1948 was $3 billion 510 million. Because of the subsequent extension of aid to Greece and Turkey, the expenditures are exceeding the original estimate.

Since then the Administration has recommended $597 million of interim aid to Austria, France and Italy, and a deficiency appropriation of $500 million for the United States Army. In other words, since the opening of the new Congress and submission of the original budget, the Administration has requested around $1 billion 500 million additional expenditures for international affairs and finance, which, if appropriated, would make a total of over $5 billion for this purpose alone.

Question of Foreign Aid

The question of aid to foreign nations is one of the great uncertainties in our national budget picture. It presents one of our foremost problems. In one form or another, the American people have already extended over $20 billion in foreign assistance since the cessation of hostilities. And under the so-called Marshall Plan we are being asked to extend still additional aid over a four-year period of between $16 billion and $22 billion. No one has been able to tell us with any certainty exactly what the program will ultimately cost.

The majority in Congress recognize that aside from any humanitarian considerations, the United States has an important stake in promoting world recovery, both in the interest of national security and in the interest of foreign trade. But there are definite limits to what we should do, and there are definite limits to what we can do.

I cannot possibly predict what final action the Congress will take on this vast foreign aid program. I can assure you, however, that it will not simply "rubber stamp" the Administration's recommendation. And I can assure you the Congress will not make a "blank check" appropriation. We have no intention of embarking on a world WPA program, which does a disservice to the recipients and threatens our own economic stability.

The fact I wish to emphasize here tonight is that foreign assistance has become a major item in the cost of government. In many respects it is a speculative venture. There is no guarantee of success. And, as a representative of the people who will pay the costs in taxes and in prices, I cannot assume lightly the responsibility of passing judgment upon the proposal.

It must be understood that expenditures for foreign aid will constitute a burden to federal income taxpayers, many of whom are persons of small incomes. And it must also be understood that the shipments of goods abroad out of the limited supplies in the United States are a major factor in the price of goods here at home.

As a matter of fact, no one, not even the President, can now blink the fact that buying for foreign account is exerting a terrific pressure on prices here at home. No one will deny that if, tomorrow, all buying for foreign account were terminated we would see an immediate downward drop in prices.

Obviously, no such course is to be adopted by our government. But what is the answer?

We are told that foreign aid is to be advanced to prevent the disintegration and collapse of the governments and economies of certain friendly nations. Most have said that foreign aid should not be extended in such amount as to seriously jeopardize our own stability at home or threaten seriously our own economic and governmental disintegration and collapse. What then now is the situation?

It seems to me that if we are to assume the essential correctness of the President's recent message, we are confronted with a situation involving, on the one side, risk of disintegration and collapse abroad and what that is said to mean to our future security and our economy at home. And on the other side we are confronted with the risk of disintegration and collapse at home because either of ruinous inflation or resort to planned, managed and controlled economy with all that portends for the preservation of our full productive capacity and our American way of life, which admittedly today makes us the hope of friendly peoples whose resort to such methods of planned economy has seriously contributed to their present difficulties.

At this point, I might engage in considerable criticism of past policies which have contributed to our present problems. That I shall leave for another more appropriate occasion.

We must look ahead. I question whether any one today has the sure answer to this dilemma. But I, along with other patriotic Members of Congress, motivated only by love of country and a sincere desire to do what is right in the world, am struggling to find the answer. I think we shall find it.

I earnestly hope that some way can be found to reasonably meet our minimum requirements abroad, avoid ruinous inflation or governmental regimentation at home.

We in Congress, directly and through the assistance of others, have obtained great quantities of information regarding conditions at home and abroad. We shall seek all possible further information. We shall proceed expeditiously, but with care, in making decisions on this momentous question. All of this, of course, has a definite bearing on the cost of government and tax reduction.

Subsidies in Cost of Government

Another type of government expenditure that makes for the high cost of government is subsidies and grants-in-aid to state and local governments. The Committee on Reduction of Nonessential Federal Expenditures has reported that for the years 1934 to 1946, inclusive, Federal expenditures for 33 items which are subsidy payments to business and farmers totaled $13,610,911,-114, or an average of $1,046,993,-162 a year, and for this same period the Federal payments direct to states and for cooperative programs within the states amounted to $35,097,616,156, or an average of $2,699,000,000 a year.

It is virtually impossible to determine the total cost of subsidies because they take on many forms which are not easily measured. They appear in various appropriation bills and under various headings. They were paid to hold down prices, for benefit payments to farmers, for shipbuilding, and to stimulate exports and domestic consumption, for housing and other activities. They are paid in connection with school lunch programs and public housing. They are involved in loan guarantees and special concessions on postal rates.

We all recognize that in some circumstances government subsidies are justifiable. But it is perfectly clear that over the last several years the Federal Government has all too extentsively used this device. It has been an expedient and politically popular method of dealing with particular problems or situations. And it has been a method by which national planners could obtain more and more control over activities local in character.

By the so-called grants-in-aid the States have been coerced into making expenditures they might not otherwise make, into increasing expenditures for some particular purpose, and into yielding to the dictates of the Federal Government in the administration of some program.

When you have a huge bureaucracy, such as we have in Washington, far removed from the people and out of their direct control, the result is waste and extravagance. It seems to me that the closer a government is to the people and the closer the collection of taxes is to their expenditure, the greater will be the efficiency in government expenditures and the greater will be the public resistance to wasteful and unnecessary expenditures. The people then definitely see the relationship between taxes and expenditures. In recent years the people have allowed themselves to believe that money from Washington did not cost them anything. The fact is it has cost them many times more, not simply because of the duplication of State and Federal operations but also because of the inability of a government far removed from local situations to make wise and prudent expenditures.

Government Costs Can Be Reduced

That the cost of government is high, there is no doubt. And most people are agreed that the cost of government is too high and must be reduced. That it can be reduced the majority in Congress almost alone and single-handed has demonstrated by its action at the last session in saving almost $4 billion 500 million.

And I should like to point this out for the majority in Congress that almost every suggested reduction met with vehement opposition from the department or agency involved. When their representatives appeared before the House Committtee on Appropriations, they did not direct their testimony to where and how savings might be made. They insisted on maximum amounts. In some instances the Committee experienced considerable difficulty in getting from the department or agency the necessary details concerning their personnel and activities. In some instances they propagandized the country with half-truths and misrepresentations with respect to particular reductions proposed by the Congress.

I take pride in the fact that the majority in Congress has the will and the courage to economize. It is politically easier to leave expenditures alone than to reduce them. Every government expenditure has vested interests and supporters, both in and out of government. Everyone is in favor of reducing expenditures for the other fellow. But the only way to cut spending is to cut it. And the majority in Congress did exactly that without impairing a single essential function of government.

The President and the Secretary of the Treasury have officially taken the position that the budget should be balanced and taxes should be reduced. With the premise that the budget should be balanced, I certainly agree. When our national income is at the present high level there is no excuse not to have a balanced budget.

Where the majority in Congress and the Administration differ is with respect to the level at which the budget should be balanced. Just as there is no necessity for continuing the policy of high government spending, there is no necessity for continuing the wartime tax rates.

As you know, the majority in Congress passed two tax reduction bills. Both of them the President vetoed.

President Truman, in his message this week to the Congress said:

"The housewife who goes to buy food today must spend $10 to buy what $7 bought a year ago."

Correctly, he could have added that $3 out of that $10 goes for taxes, Federal, State and local.

Also, he could have said that taxes enter into the cost of everything from an automobile to a haircut.

But he didn't.

I believe that tax reduction is urgently necessary to strengthen our country. I also believe that it is wise to whittle down our national debt.

Tax relief, debt reduction and aid to Europe can be compatible.

I do not accept as sound the argument that it is not inflationary for the government to tax the people excessively and spend their money, and that it would be inflationary if the people were permitted to keep more of their hard-earned money.

Many benefits would flow from reduction of the intolerably high wartime taxes.

The per capita burden from Federal taxation is about seven times as great as it was before World War II and 10 times as great as in the decade following World War I.

Undoubtedly the very large portion of income taken by the Federal Government in taxes has been a factor in the demands for higher wages.

Excessive tax rates have stifled the desire of many persons to risk their capital and exercise their ingenuity in expanding industry to produce and provide jobs.

Savings for investment are made by persons in all brackets, but their taxes are now so high that they are discouraged from making these savings.

Lower taxes would be welcomed by persons in the lower brackets. Lower taxes would mean greater take-home pay for the great mass of workers—more money for necessities and investment to increase production.

The approach of the majority in Congress to the question of "Meeting the High Cost of Government" is this: The cost of government must be reduced to a reasonable level. It is a difficult task that should be a challenge to every patriotic American. And, secondly, by reducing the cost of government the American people can be given relief from excessive and stifling taxes. The one is necessarily dependent upon the other.

Summarizing, our position is that, by courageous, honest, statesmanlike and careful action, we should be able to meet our requirements abroad, provide all necessary governmental services and functions, begin the orderly liquidation of our national debt and also give the people much needed and well-deserved tax relief—all to the accomplishment of our full strength and security, our peace, happiness and prosperity, and the preservation of our cherished and blessed way of life.

F. A. Pakas Joins Jos. Klein & Co.

Frederic A. Pakas has become associated with Joseph Klein & Co., 67 Wall Street, New York City and will be in charge of the firm's newly organized securities department. Mr. Pakas was previously manager of trading department for the New York office of T. J. Feibleman & Co. and prior thereto was with Keane & Co. in Detroit.

F. A. Pakas

Interim Aid for Europe To Be Discussed at IBA Convention

Interim aid for Europe, the Marshall Plan, and their impact on the United States economy will be the major topics for discussion at the forthcoming convention of the Investment Bankers Association of America at Hollywood, Fla., Nov. 30 to Dec. 5, it was announced by Edward Hopkinson, Jr., Drexel & Co., Philadelphia, President of the IBA.

Speakers scheduled to appear include Willard L. Thorp, Assistant Secretary of State for Economic Affairs, whose subject will be "Fundamentals of European Recovery"; Dr. John M. Cassels, Economist of the Department of Commerce, who will discuss "The Impact of the European Recovery Plan on the United States and Other Supplying Countries"; and Eugene R. Black, U. S. Executive Director, and E. F. Dunstan, Director of Marketing, of the International Bank For Reconstruction and Development, who will conduct a forum in which the role of the bank in the Marshall Plan, the bank's plans for future security flotations and its lending program will be discussed.

Mr. Hopkinson cited the antitrust action against the Investment Bankers Association and the problem of finding new sources of equity capital as the two major problems of distinct importance to the securities industry which will be considered.

New Member of the Chicago Stock Exchange

CHICAGO, ILL. — The Executive Committee of The Chicago Stock Exchange today announced the election of James N. Russell to membership in the Exchange. Russell is a partner of the firm of Gottron, Russell & Co., Cleveland, Ohio. With his election, the firm becomes registered as a member firm.

The firm has for several years been a member of the Cleveland Stock Exchange, and Richard A. Gottron, partner of the same firm, is now President of that Exchange. Private wire connections have been established to Mitchell, Hutchins & Co. in Chicago.

Also elected to membership was Andrew S. Messick, partner of the firm of Andrew Stewart Messick & Co. Messick's company has been an active member of the Board of Trade of Chicago for several years and is presently engaged in expanding his business to include stocks.

Approval was also given to the transfer of a membership from Hugh D. McBain to Frederick M. Fritschler, of The First Boston Corporation.

The Exchange now has 153 member firms, the highest in its history.

New Money for Old—Hot or Cold?

(Continued from page 4)

Mellon merely directed his Assistant Secretary to look into the matter of reducing the paper currency's size and submit recommendations. According to a press release at the time (1927), "Mr. A. W. Mellon announced that he has approved the recommendations submitted by Assistant Secretary Dewey for a reduction in the size of the paper currency . . . (7 7/16" by 3⅛" to 6 5/16" by 2 11/16")." That was all there was to it. Secretary Mellon was on firm legal grounds.* No change in the Secretary of the Treasury's powers over the currency has occurred in the interim. It would seem, then, that the present Secretary's powers to effect the change proposed by Representative Rogers in the color scheme of our currency are already ample. Mrs. Rogers' proposal for special legislation to accomplish the revision is, in view of the foregoing, somewhat mystifying. It is in this apparent anomaly that the more searching implications for the entire economy of a currency recall at this time exist.

The Implications of a Currency Recall

Unlike the 1929 recall, the proposed currency modification, if adopted, will have been preceded by over 12 years of steady annual increases in the amount of money in circulation (see Table). From 1920 to 1930, money in circulation (MIC) actually declined irregularly, a period of the greatest peacetime boom in the country's history, not surpassed until post-World War II. Some of the reasons for the fantastic increase in MIC since 1936, especially that from 1941-1945, are patent, others are abstruse, and still others downright suspect. The accompanying Table I attempts to discover whether there is any correlation between the expansion of MIC and the changes that have occurred since 1920 (that is, where available statistics permit) in the various phases of the economy.

Although all of the gold now in the United States is not specifically pledged behind the currency, Col. 1 reveals that the actual yellow metal backing for the dollar has weakened drastically since 1940, and except for 1946, has not been so poorly supported in that respect since 1921, coincidentally the last comparable postwar year. Nevertheless, the ups and downs in U. S. gold stocks are not especially indicative of MIC causation. In reality they reflect the flight to the dollar that began with the devaluation in 1934 and accelerated rapidly with the gathering of war clouds in the late 1930's.

Columns 2 and 3 are purposely juxtaposed. They show clearly that while MIC per capita has, since 1936, jumped 304%, MIC per dollar of wages and salaries gained only 166%—slightly more than half. Obviously we shall have to look elsewhere than to the serviceman and the laboring man for the explanation.

Column 4 contains the first, and as will be developed later, the closest correlative in the entire Table. Liquid assets per dollar of MIC retain their identity with MIC because of the war-inspired practice (prewar, postwar, and during war) of transacting both business and personal affairs on a cash basis in ever-increasing amounts—especially as the price level mounted and the workings of OPA grew to be most onerous with war's end. This is clearly shown by Column 5 where the amount of MIC in relation to bank debits doubled since 1939 and quadrupled since 1929. Currency in the hands of the public constitutes by far the greatest amount of MIC, as Column 6 illustrates: Right now, 92% is publicly held, as against 75% in 1929, 85% in 1939.

It has been argued that the vastly greater rate of consumer expenditures since 1936 justifies unprecedented expansion of MIC. Columns 7-10 do not support this view — the reverse being true if anything. Total consumer expenditures in 1947 (Column 7), for some reason apparently required 80% more cash than in 1936, a year of considerably less personal credit expansion and generally weaker personal credit position. Broken down, it would seem that purchasers of durables need 44% more cash, nondurables 58%, and services 138%. In view of the 62% increase in consumer credits since 1936 (128% since 1944, the war's low point), our quest for the solution of the MIC riddle may be finding a large part of its answers in the nature and scope of business practice surrounding personal expenditures.

The Anatomy of U. S. Money in Circulation

The above Table suggests that not even in the course of studying usual economic pursuits, will the answer to the question regarding the phenomenal rise in MIC during the past 12 years be found. It almost seems to hint that the explanation may not be an economic one at all. That is, such would be the case were it not for the peculiar correlation of the growth of MIC with that of liquid assets; the end of our quest will probably be found in an examination of the nature and motivation behind the extraordinary accumulation of liquid asset savings that has occurred, particularly during the war. No doubt the equally phenomenal rise in factory payrolls during wartime expansion, and in servicemen's pay, were among the prime causes behind the initial issuance of the currency out of the banks; but the question still remains, why, once these funds were expended, they did not find their way back into the banks as deposits in the usual manner.

That war workers' wages and servicemen's pay were not the only causative factors behind the initial withdrawals of currency is demonstrable. The number of factory workers hit the wartime peak in 1943 (14,560,000); in no year since has that figure been exceeded. In August, 1947, it was about 15% below (12,565,000). Factory payrolls, for all the intervening wage hikes, are still about 10% below 1943's. The Armed Forces averaged 11,300,000 in 1944, the peak year, increasing from January's 10,300,000 to December's 11,800,000, about 15%. It is now down to 1,400,000. Further, Series E War Bond sales averaged over 33% of annual average factory payrolls in 1943 and 1944. Moreover, most overseas personnel (about 40% of the total in 1944) were paid in foreign currencies. The writer can personally attest to this, having disbursed naval funds in Brazil as a supply officer. All payments were in Brazilian cruzeiros. No incoming personnel could bring in more than $50 for any reason, and that had to be exchanged immediately for native currency Thus, despite a stabilized factory wage and Armed Forces pay situation, 1944 saw MIC increased from $20.4 billion to $25.3 billion, over 26% (well in excess of the entire amount of MIC in 1929). With large amounts of workers' and servicemen's pay going into war bonds, these figures would suggest that the astounding expansion in wartime MIC and the continuance of its rise into the postwar period has been in major part due to an obvious preference, newly developed on the part of civilians, for transacting personal and business affairs in cash.

Tax Evasion and Black Marketeering

The two obvious motives for conducting a sizable business chiefly on a cash basis have been tax evasion and black market operations. There has been a third, the financing of enemy intelligence and propaganda activities within and without the United States; this latter is admittedly of minor importance, however, in relation to the first two. The extent of tax evasion and black marketeering, nevertheless, in terms of dollars and cents is almost impossible to delineate accurately. Some idea, though, of their scope may be derived from Table II below showing the changes that have occurred in outstanding amounts of the various currency denominations, with the emphasis on the unprecedented growth in the large bills ($50-$500 notably), suggesting eloquently the probable nature of their function.

By indexing the individual denominations, using 1936 as 100, the table reflects the effect upon U. S. currency of (a) the flight to the dollar; (b) individual uncertainty about the security of banks, especially after the 1933 experience; (c) fears of inflation and soft money (this explains the notably greater increase in coin over the $1-$5 bills); (d) the rise in the commodity price level; (e) the impact of war. As is plainly evident, the most striking increases occurred in those denominations least used in ordinary consumer business transactions, the $10-$100 bills. Such ordinary transactions would justify an increase of about 60% in the $1-$5 categories in view of the rise in the consumer's price index. The additional 40%-80% jump actually experienced may represent a combination of the effects of the notorious "stoopies'" market, and incidental saving (that is, hoarding).

Considering, however, the relative rarity of the $50 and $100 notes for business purposes, the continued growth in their rate of issuance in the postwar period, as against the stabilizing to decline in the others, suggests that they are being used as a repository for savings, or as temporary storage for capital, rather than as a medium of exchange. Because of the ease in handling and storing fewer bills, the larger denominations, $500, $1,000, and $10,000, would appear to be superior for this purpose. Oddly, nevertheless, a curious reversal occurred in the burgeoning popularity of these large bills, coincident with the issuance by the U. S. Treasury Department through the Federal Reserve System in May, 1945 of an order directing all financial institutions to make a full report of any exchange of currency involving sums of cash in excess of one thousand dollars in bills of $50 and above, or any denominations if the sum exceeded $10,000. Accompanying a later revision of the report form, on Oct. 24, 1945, the Treasury advised the Federal Reserve as follows: "The end of hostilities has, unfortunately, not put an end to tax evasions, nor lessened the need for tax enforcement. Accordingly this Department is continuing to give the fullest attention to the reporting and other phases of its tax enforcement program . . ."

It would seem, then, that the 5- and 6-fold increase in those bills ($20, $50, and $100) that are free from official surveillance and therefore most suitable for saving as against trading, strongly intimates an unwillingness on the part of many owners to submit their cash accumulations to the routine scrutiny of bank officials by depositing them—for reasons that can only be guessed at. Among those reasons are, as mentioned, income tax evasion and/or black market operations — they usually go hand in hand.

Should Representative Rogers' recoloring proposal be adopted, in effect a currency recall will result. In the process, all those deposits for the New Colored money of the Old Colored cash, not susceptible to full explanation to the Bureau of Internal Revenue, are liable to confiscation; their owners, more importantly, are liable to criminal prosecution for tax evasion (tax avoidance is only liable to a penalty fine). Mr. Henry Lustig and associates, once of Longchamps fame, like Al Capone, have become fully acquainted with the workings of the Bureau of Internal Revenue when tax evasion is an issue. Our peculiar Federal income tax law does not concern itself with the sources of taxable income (Lucky Luciano, the White Slaver, was always careful to pay his income taxes). Black marketeers have little to fear as such. It is only if they have been so careless as to overlook the necessity of full disclosure on Form 1040 that they would run into difficulties with an aroused Bureau of Internal Revenue.

Black marketeering, it is generally known, occurred in numerous forms of business and agriculture at about every stratum of income. The usage of large denomination bills was necessary in such transactions to insure expeditious movement, while maintaining the required confidential atmosphere with the small physical size of the bundle. The old tin box and the bulging black suitcase went out of style with the Torrid Twenties. Further, in this connection, an undetermined number of refugees, who had converted their foreign funds into U. S. currency and who habitually had all their liquid resources with them, descended upon our shores in the late 1930's and early 1940's. The habits these individuals had developed in Europe of necessity, due to the Fascist harrying, of doing business for cash only, had become too ingrown to cast off easily. Carrying large amounts of currency on one's person could only be accomplished comfortably with the larger bills. Undoubtedly, this group's monetary practices augmented the MIC out of all proportion to its numbers.

Rather than face the almost dead certainty of confiscation and criminal prosecution, tax evader-holders of an undetermined amount of the MIC would not attempt to exchange their currency for the New Colored money. As the government could set a deadline, by which time all Old Colored currency must be exchanged, the Treasury would come into "windfall" taxes of vast proportions. (The banks would simply credit the government with the amount of unexchanged currency as of the deadline date.) The exact figure which this sum would reach, though, is not easily ascertainable. If the view is taken that a large part of the extraordinary concentration of currency savings in the higher denominations cannot, generally speaking, stand the light of day, then the government, it can be seen, would benefit by an indirect payment of what might be considered a huge backlog of "uncollected taxes." This amount, were the relationship of the larger denominations reverted to the 1940 status and personal expenditures financed in the same proportion, could range between $4-$10 billion.

Looked at another way, the non-business denominations ($50-$10,000), that is, those not used regularly as a medium of exchange, constitute over 30% of the MIC. In addition, it is extremely doubtful that all of the lower denominations outstanding are actually required in normal business trans-

*His powers over the currency's physical composition were complete and rested upon certain statutes: viz., national notes—Section 104 of Title 12 of U. S. Code: "Such notes . . . shall be in such form as the Secretary of the Treasury shall direct." Other U. S. currency is covered by Section 40, Title 31, U. S. Code, "Money and Finance": "U. S. notes . . . shall be in such form as the Secretary of the Treasury may deem best." (Also see R. S. 3571, U. S. Laws & Statutes.)

TABLE I—U. S. CURRENCY RELATIONSHIPS

Year—	Money in Circulation (Billions)	1 Gold Stocks Per $	2 Money in Circulation Per Capita	3 Wages & Salaries Per $	4 Liquid Assets Total Per $	5 Bank Drs. Commercial Banks	6 Currency Outside Banks Per $	7 Per $ Personal Consumption Expenditures Total	8 Durables	9 Non-Durables	10 Services
1947	$28.29	$0.74	$198	$0.23	$0.12	$0.02	$1.08	$0.18	$1.41	$0.30	$0.64
1946	28.25	0.73	200	0.25	0.13	0.02	1.06	0.20	1.89	0.32	0.68
1945	26.75	0.75	191	0.23	0.12	0.02	1.01	0.22	3.33	0.35	0.70
1944	22.50	0.91	163	0.19	0.12	0.02	0.96	0.22	3.32	0.34	0.62
1943	17.42	1.26	128	0.16	0.12	0.02	0.92	0.17	2.68	0.28	0.51
1942	12.38	1.84	92	0.15	0.11	0.02	0.89	0.14	1.82	0.23	0.40
1941	9.61	2.36	72	0.16	0.12	0.01	0.96	0.12	0.98	0.22	0.34
1940	7.85	2.80	59	0.16	0.11	0.01	1.07	0.11	1.00	0.21	0.30
1939	7.05	2.50	54	0.15	0.11	0.01	1.10	0.10	1.05	0.20	0.28
1938	6.46	2.25	50	0.15	---	0.01	1.12	0.10	1.12	0.19	0.26
1937	6.45	1.97	50	0.14	---	0.01	1.15	0.10	0.92	0.18	0.26
1936	6.24	1.78	49	0.15	---	0.01	---	0.10	0.98	0.19	0.27
1935	5.57	1.81	44	0.15	---	0.01	---	0.10	1.08	0.19	0.26
1934	5.37	1.54	43	0.16	---	0.01	---	0.10	1.25	0.20	0.26
1933	5.43	0.74	43	0.19	---	0.01	1.14	0.12	1.55	0.24	0.26
1932	5.41	0.78	43	0.18	---	0.01	---	0.11	1.47	0.24	0.24
1931	4.54	0.92	37	0.12	---	0.01	---	0.07	0.82	0.16	0.17
1930	4.24	1.01	34	0.09	---	0.005	---	0.06	0.58	0.12	0.14
1929	4.46	0.90	37	0.09	---	0.005	1.25	0.06	0.47	0.12	0.14
1928	4.51	0.85	38	---	---	0.005	---	---	---	---	---
1927	4.56	0.90	39	---	---	0.005	---	---	---	---	---
1926	4.60	0.91	39	---	---	0.005	---	---	---	---	---
1925	4.52	0.91	39	---	---	0.01	---	---	---	---	---
1924	4.56	0.92	40	---	---	0.01	---	---	---	---	---
1923	4.54	0.87	40	---	---	0.01	---	---	---	---	---
1922	4.18	0.87	38	---	---	0.01	---	---	---	---	---
1921	4.62	0.73	43	---	---	0.01	---	---	---	---	---
1920	5.18	0.51	48	---	---	0.01	---	---	---	---	---

NOTES: (1) MIC excludes 1920-33 $287 million withdrawn from circulation in 1934.
(2) All 1947 figures estimated.
(3) All amounts computed by dividing columnar figures (1-10) into money in circulation.

actions. Were a return made to the 1936-1940 relationship of financing personal consumption expenditures with about 10c per dollar of money in circulation (see Table I) instead of the present 18c, a 45% reduction in the MIC would be in order. This would imply a return of most of the largest denominations and some of the smaller to bring the MIC down to about $16 billion, that is, a reduction of $12 billion. Parenthetically, it should be appreciated also that a decrease in the present unprecedented rate of personal expenditures would further lessen the need for even a $16 billion total of MIC. Any such contraction in the MIC would, it is submitted, have a shock value for the economy not now susceptible to full evaluation. The remainder of this article will be devoted to exploring the possible impact a currency recoloration or recall would have on certain segments of U. S. life.

Effects of a Currency Recall

A currency recall would not actually have to occur to set off reverberations that would register in most parts of the economy immediately. The mere threat of such a change in the amount of the MIC would touch off so many anticipatory moves of a far-reaching nature, by both actual and potential owners of outstanding currency, that most phases of the nation's life would be markedly affected. Few citizen's daily lives would be quite the same for some months afterwards, once the currency change proposal evidenced a convincing chance of going through.

Financial Repercussions

In reality, money in circulation is undeposited bank deposits. Conceivably, all transactions, whether business or personal, could be financed by check. Experience, nevertheless, has demonstrated the feasibility of restricting the payment for certain business/personal expenditures and purchases to cash. That most of the currency now outstanding is not necessary for such purposes, at least when they are *bona fide*, has already been discussed. A return to banks as deposits of the excess currency, estimated in round figures at about $12 billion, could profoundly alter the present money supply situation. Instead of banks having excess reserves of about $1 billion, the figure would be $13 bilion, permitting a credit base expansion of about $65 billion, three times the present amount of all loans outstanding in the Federal Reserve System.

As the Federal Reserve has already recorded its desire to curb inflationary forces through contracting credit, this development would be a major setback. In order to sop up the additional excess reserves, reserve requirements would have to be increased to 31%. They are now 20% in central reserve cities; at their highest, 1937 and 1942, they never exceeded 26%, the statutory limit. Since reserve requirements could not, if increased, exceed 26%, excess reserves would, with the currency recall, be over $4 billion, and that has important implications for the securities markets.

Such an amount of excess reserves would be almost totally investable, and would find its way mostly into the U. S. Government bond market. The resultant effect on Treasury bond prices would probably carry them toward record high ground. In the purest sense of the word, that would be "monetizing" the debt with a vengeance. The technical position of Treasuries, incidentally would be further strengthened by any debt reduction which application of the "windfall" taxes, *supra*, would effect. The municipal bond market would similarly be affected, perhaps more so if no reduction in personal and corporate income tax rates has occurred beforehand.

Stocks and commodities would benefit pricewise initially. Such of the Old Colored money as is "hot" would rapidly be sold at discounts to those willing to assume the risks. Much of such currency would in small amounts find its way into the markets. The greatest of all markets, however, would be the black market in the currency itself. Now a settled part of the postwar economic life of most of the world, black markets in currency would soon be well established in the United States—at least until the deadline date. As its life would be short, no necessity for setting up special controls would apparently exist, so its activities would probably justify the description of being "rampant," to put it mildly.

The bank's problems in handling the mechanics in exchanging the new for the old currency would be manifold. Whereas in the 1929 currency face-lifting, 900 million pieces were involved, in the Rogers recoloration project, over 2.6 billion pieces would have to be processed. There would be the usual transition period when both currencies would be outstanding, with its implications of confusion and extra clerical outlays. Combined with the probability of a deadline on completing the substitution, the foregoing would infer a measure of out-of-pocket expense by banks. Alert bank management would, however, take full advantage of the opportunity to add a previously untapped source of new deposits and new business with an unplumbed potential.

Economic Repercussions

The onset of a major black market in U. S. currency, either in anticipation or during the actual processing of the Rogers proposal, would be an inflationary force of the first magnitude. The only course open to those holders who may not, for one reason or another, exchange their Old currency for the New, would be to swap it for anything tangible—houses, cars, jewels, stocks, commodities, what have you. There would be no way of effectively curbing these activities. In an already tight market for durables these operations would of necessity be disruptive. On the other hand, removal of any such sum as $12 billion from the public's hands, which the actual exchange would probably effect, would be somewhat deflationary, since the new holders, the banks, would funnel such of it as the Federal Reserve left investable, but not loanable, into fixed interest securities directly.

After World War I's postwar boom burst, MIC dropped 18% in two years from 1920-1922. While a similar contraction following the current boom would be material, it would still leave about $8 billion more than is needed as a medium of exchange. In this connection, it is interesting to note that were the rate of increase in MIC for World War II to be equal to that of World War I, the amount of MIC now would be about $15 billion in excess. In view of the similarity in the extent of the rise in the wholesale price level, this is an illuminating contrast, the explanation for which may possibly lie to some extent in the eye-opening difference in income tax rates — lowest and highest in World War I ranged from 1% to 65%, in World War II 20% to 91%.

The more profound economic intimations in the Rogers currency proposal would flow from the politico-diplomatic steps which the Federal Government could take, especially as regards tax reduction and financing the Marshall Plan.

The Politico-Diplomatic Repercussions

Outside of the risk of possibly stepping on the toes of some party officials, both high and low, there should be no politico-diplomatic reasons why both Republicans and Democrats would not welcome such a currency plan as Representative Rogers proposes, with open arms. On the contrary, it opens up possibilities which in a Presidential election year, could not be more promising. First of all, few politicians would miss the chance of engaging in a nationwide witch-hunt for "the rascals" in a key election year. It is such a worthy cause, like being "agin sin." Second, and vastly more important, a currency recall may provide the perfect answer to the politician's $64 question regarding the Marshall Plan—who is going to pay for it? As estimated above, the "take" in hot money could approximate $4-$10 billion. Such a sum would, in the upper range, not only finance the heavy first year of the Marshall Plan, but much of the second. This would clear the way for the politician to put his best foot forward in a Presidental year — by cutting taxes.

At the same time, the diplomatic front would be strengthened. Not only would the success of the Marshall Plan in some tangible form be assured; certain other frictional aspects of our relations with foreign countries would be eased. One of these is the surging black markets* in various currencies with U. S. money usually the base. Recall of the currency would put an end to many such markets for an indefinite period. Operations of the International Monetary Fund would, as a result, benefit greatly.

From a governmental administrative point of view, Representative Rogers' currency recoloration could be the inaugural for a periodical refurbishing of U. S. money, say, every five or ten years. Not only would this confound counterfeiters, it would also serve to thwart any concerted efforts to use U. S. currency as other than a medium of exchange. Further, on a piece basis, the entire currency is normally turned over (that is, renewed) about once a year anyway. Therefore, the element of cost would be of minor consequence.

Prospects and Summary

Undoubtedly, there is a good chance of Representative Rogers' proposal going through, if not in 1948, perhaps in 1949. It has all the best arguments on its side. Nevertheless, it would run into strong opposition from many quarters, whose arguments would not be too easy to rebut. They run as follows:

(1) A recall of the currency would be disruptive to the economy in a critical, i.e., a Presidential, year.

(2) A probable increase in the banking structure's credit base has harmful implications, especially with outstanding loans now at or just below the all-time highs.

(3) There is no assurance that the amount of "windfall" taxes, to which the government may fall heir, would anywhere nearly approximate the sums postulated above (viz., $4-$10 billion). Therefore, the alleged benefits are of doubtful eventuality.

On the other hand, the opposition would probably find it even more difficult to cope with the arguments of the pros. They follow:

(1) A new color scheme for the currency would undeniably facilitate the handling and counting of bills and thereby accelerate bank business transactions.

(2) The country does not need any more than $16 billion of currency in circulation, if that much. The recoloration could serve as a recall which would probably reduce MIC to that figure, as the owners would doubtless leave the difference in banks as deposits.

(3) Recoloration at this time could be the inaugural of a periodical currency recall which would formally fix control over the end-use of U. S. money as an exchange medium, in the hands of the individual designated by law, the Secretary of the Treasury.

(4) Tax evasion would be restricted to other than currency media.

(5) The Federal debt and income taxes could be reduced in 1948 by applying such of the "windfall" taxes, which the tax evaders provided by failure to exchange their Old currency holdings for the New.

(6) The Marshall Plan financing may, as an alternative to or in conjunction with No. 5, be based in part upon employment of the same "windfall" tax income.

(7) The inflation potential in the present amount of MIC, long a bugaboo of private and government economists, will have been largely eliminated, as over 40% of the MIC would have been more or less immobilized.

(8) As no changes in the designs of the currency are in prospect, the mechanics of the job are much simpler than those of 1929 when, in effect, the entire currency was completely revamped. The major difficulties, printing time and color processing, are technological and probably could be easily overcome. The problem of assigning colors could be simplified by making the rarely used $50-$10,000 notes the same color and reserving four standard shades for the bills most often used — the $1-$20 denominations. The $2 bill, "race track money," has long outlived its usefulness and should be eliminated from the currency. The Rogers recoloration proposal would offer a good opportunity to do it while accomplishing more essential objectives.

*Since finishing this article, a noteworthy development regarding British currency has taken place. In England, the alleged black marketeering in sterling has become so rampant as to lead the Government to consider a recall of the entire British currency and an issuance of new notes, Sir Stafford Cripps, the Chancellor of the Exchequer, revealed on Nov. 18. In order to achieve maximum effectiveness in squelching marketeering in sterling, Cripps stated that such "a currency cancellation would come without warning." Since it is a foregone conclusion that U. S. Currency is being used for a base for marketeering in sterling, a recall of American money probably would accomplish the Chancellor's objectives without necessitating a British currency cancellation.

TABLE II—U. S. MONEY IN CIRCULATION, BY DENOMINATION
(1936=100)

	Total Circulation	Coin	$1	$2	$5	$10	$20	$50	$100	$500	$1,000	$5,000	$10,000
1947	442	264	201	180	227	401	610	637	730	319	296	71	67
1946	442	263	206	191	239	417	621	625	675	324	296	114	144
1945	435	246	207	208	254	432	615	581	599	337	304	100	133
1944	387	223	198	232	238	383	482	501	587	412	373	143	133
1943	312	197	182	200	217	332	381	371	412	302	283	129	122
1942	235	171	131	157	186	259	273	255	271	213	221	129	139
1941	170	145	139	126	150	175	170	182	202	193	209	342	256
1940	134	125	122	111	125	129	120	135	157	168	198	428	333
1939	116	114	112	103	112	114	105	115	130	142	160	286	178
1938	104	106	105	97	104	103	99	102	109	118	123	242	178
1937	100	104	101	91	100	100	98	97	100	103	108	86	67
1936	100	100	100	100	100	100	100	100	100	100	100	100	100
1935	90	92	92	94	90	88	91	90	89	91	90	100	89
1934	85	87	85	91	85	82	88	84	81	83	81	71	39
1933	84	86	80	94	79	79	89	91	87	93	89	114	55
% Change—													
1936-47	+342	+164	+101	+80	+127	+301	+510	+537	+630	+219	+196	—29	—33
Millions of Pieces—													
	Total												
1947	2,627	---	1,060	31	411	623	457	51	52	.86	.81	---	---
1936	944	---	449	17	181	156	75	8	7	.27	.27	---	---

NOTE: 1947 is as of Aug 31.

Celotex Debenture Issue Oversubscribed

Paul H. Davis & Co. and Union Securities Corp. headed an underwriting group which publicly offered Nov. 21, a new issue of $3,000,000 of 3¼% debentures of The Celotex Corp., due 1960 and priced at 97½ and accrued interest. The issue has been oversubscribed.

Proceeds from the financing, estimated at $2,865,000, will be used to pay off $2,500,000 of bank loans made to protect the working capital position of the company while it was engaged in its present broadscale expansion program, with the balance being added to the general funds of the company.

Celotex has spent around $14,000,000 for additions and acquisitions since 1944. These additions will be further increased by $1,100,000 for the three months ended Oct. 31, and acquisitions by $1,700,000 for the same period. An additional $1,600,000 will be needed to complete additions now in progress. The expansion program involves new or improved facilities in Louisiana, New Jersey, Ohio, Texas, Indiana, Michigan, California, Illinois and London, England.

Wall Street Riders Thanksgiving Breakfast

A tradition of the Wall Street Riding Club will be observed on Thanksgiving morning when the financial district's equestrians will hold their Thanksgiving breakfast ride at Forest Hills, L. I.

The ride, which will be led by the Club's President, Mr. G. H. Struckmann of the Bank of the Manhattan Company, will be followed by breakfast at the Forest Hills Inn.

On the Committee in charge of arrangements for the breakfast ride are, the Misses Virginia McGaffney of Dunham & Fletcher and Adele Lotz of J. & W. Seligman, as well as Mr. William Salisbury of Union Securities and W. F. Baldwin of Smith, Barney & Co.

Chas. Walker in Buffalo

BUFFALO, N. Y. — Charles W. Walker is engaging in a securities business from offices at 1045 Ellicott Square.

Current Topics in Wall Street

(Continued from page 6)

author of a volume on "Cycles: The Science of Prediction." Mr. Dewey states that there are some activities in economic life which over a long period of time have moved in a certain up and down rhythm with a regularity which can not be sufficiently explained by chance. On account of this regularity, Mr. Dewey makes the cautious statement that he considers it unwise to disregard the possibility of the continuation of these trends exhibited in the past.

Without question, some of the cycles demonstrated by Dewey are striking with regard to the regularity of the pattern shown and to the length of the period in the past to which this pattern can be traced. His 18⅓ year cycles of real estate activity and of building construction are a case in point. At the same time, the application of the knowledge of cycles is limited by the obvious fact that the behavior of ups and downs in the past is no guarantee of such behavior in the future. Even if such a continuation is accepted as probable, there is still room enough for changes in the length of cycles and for other deviations to render the study of cycles at best an auxiliary instrument of research. Dewey himself admits the limited value of the study of cycles by emphasizing that knowledge of the facts involved should be of value "if used with intelligence." His 18⅓ year building construction cycle brings this point out clearly. If the past pattern is a correct indication of the future, construction will decline from current levels to a low point which may be reached sometime in 1953-1954. Thereafter there will be a rise coming to a peak about 1962-1963.

Anyone familiar with present housing conditions in the United States would hesitate to accept the probability of a low level of construction during the next five years. Generally, the opposite is looked for. Present construction activity represents a deviation from what it would be under a straight 18⅓ year cycle. However, there have been divergencies of similar size in the past. At the same time this divergence gains in interest when compared with the construction forecast included in the general business survey prepared by Mr. F. D. Newbury for the Westinghouse Electric Corporation. According to the construction cycle worked out by him, "the next low point in the construction cycle will not come before the late 1950's."

The reason for the discrepancy between the two views is probably the adjustment made by Newbury for what he calls "the delaying effect of the war." Such an adjustment seems well founded and demonstrates at once that necessary adjustments in the interpretation of cycles may be so weighty that anyone who fails to make them may find himself in error to the tune of several years. As a matter of fact, according to the Westinghouse forecast, the high point of construction activity may well occur about the same time when the low point will occur according to Mr. Dewey. Obviously, only a person with good nerves and one who expects to live a long life should be advised to determine his investment policy exclusively on the basis of cycles.

The temptation is great. For, as far back as one can see, business has moved in cycles. So have the seasons. But no one has yet found that magic formula which would enable the average investor to look up the cycle of heavy industry with one eye and find the right prices at which to buy and sell General Motors with the other. Or, putting it differently, there is no short cut here to retirement at 30.

Too Good to Be True

Business has been at a high level so long that it is now in the position of the boy at school who rose to the head of his class. He can't advance any further but if he doesn't watch his step, he may easily slip back into a less respected place. No matter how well he does, he can do no more than hold his own. In the meantime, his family and his friends watch him with great pride and still greater anxiety.

Fear of a business recession is widespread. During the decade preceding the war there were always many millions of unemployed looking for jobs. The war changed all that. Now, however, the pressure has gone and surely we are in for trouble again. So warns one school of thought whose attitude is marked by a fear complex born during the depression years when "eternal prosperity" seemed to have become but a costly dream.

Side by side with this psychological uneasiness there exists a more concrete fear of a recession based on scrutiny of current economic trends. This fear has to do with inventory accumulation, price maladjustments, etc. There usually is some emphasis on the temporary character of the coming recession and on the good prospects of a subsequent period of several years of good business.

The stock market decline in the autumn of 1946 has probably been an important factor in the business picture of the past months. It will always be a moot point to what extent the stock market merely predicts coming events and to what extent it helps to bring those events to pass by its own action. The 1946 decline had yet another effect. By predicting trouble it put the business community on the alert and was responsible for many steps taken in order to prevent the predicted trouble. The concern caused by the market decline had a salutary effect because precautionary measures were taken at a time when business was extremely good and reductions in commitments could be carried out without the severe repercussions which would have come if the same measures had been taken at a time when business was faltering.

Today we are faced with a set of conflicting developments which tend to pull the economy in different directions. Which will come out on top during the next 12 months? Any prediction on that score is limited by the circumstances that some of the factors involved are so intangible that they can not even be reasonably guessed at. Others are of a more tangible nature.

Prices and Wages

Since the end of the war, prices and wages have increased greatly. If they had moved in harmony, each additional cent charged for a pound of butter would have been offset by an additional cent earned by the consumer. The change would have been mainly technical, except, of course, for all those who depend on fixed income to pay for their living expenses.

As it was, the increases in prices and wages were extraordinarily different in scope and resulted in important shifts in consumer purchasing power. These shifts are still continuing and the ones that have taken place have not yet been fully digested. Consequently, there is a lack of equilibrium in the economy which, it is true, has not yet had any harmful over-all effect but which represents a potential threat of trouble.

Emphasis placed on the lack of equilibrium which has resulted from the divergent trend of prices and wages in recent years may easily be interpreted as a criticism of the prevailing distribution of purchasing power. There is, however, no basis for assuming that the division of national income which existed just prior to the war was ideal or even satisfactory. Nor is there any basis to assume that the present division is. The point to be stressed is that any great shift in economic relationships creates frictions. Another point to be emphasized is the apparent transfer of dollars from one group of people who spend most of what they make to another group which may spend a lesser percentage of the total, at least during the current period of prosperity.

Approximately since the turn of 1946-47 there have been instances of price reductions in some consumer goods. On the whole, however, these reductions have been of small proportion.

The prospect of a price reduction of certain agricultural products has been dimmed recently by the possibility of a lower corn crop and by the continuation of large exports of grain and other farm products for relief overseas. It is impossible to tell how much longer a return to a more regular supply-demand relationship will be postponed by these exports. However, it is sometimes overlooked that the large demand for farm products is not exclusively or even predominantly caused by export requirements but by increased domestic per capita consumption of some foods, such as for instance meat and livestock products. As in numerous other respects, the domestic standard of living is higher than it was before the war also with regard to consumption of food.

Despite the fact that here and there prices are still being increased, there would seem to be a good over-all prospect for a gradual flattening out and subsequent decline of the price spiral. The reason for this is the tremendous productive capacity of the United States, the rate at which this capacity is being utilized now and the prospect of a decline in some demand sectors in the foreseeable future. Improvement in efficiency resulting from a smooth flow of materials and from increased worker productivity should also have a beneficial effect on prices. This way, attainment of a new equilibrium between prices and wages can be hoped for, even though it may not seem ideal and though it will not be permanent.

Right now, many relationships in the economy require adjustments and any further increase in the cost of living of the urban population will intensify existing difficulties. These difficulties can only be eased by a gradual reduction in the consumer's bill of daily expenditures and any development that goes counter to this desirable object tends to increase the chance of a violent correction taking the place of a healthy readjustment.

European Aid—Dollar Shortage

For several months past efforts have been made to set the stage for a Congressional decision of far reaching importance. The issue at stake is illustrated by such headlines as—"Marshall Plan for Europe," "World Dollar Famine."

The economic problem behind the issue in question is not too complicated. As a result of the strain of war and also partly of steps allowed to be taken after the war, the Continent of Europe and the British Isles have been generally unable to restore the standard of living of their inhabitants even remotely to the level prevailing before the war. Neither have they been able to restore their production to a level where they can sell enough of their goods to other countries to be able to buy the goods from other countries which they can not produce at home. In some cases economic difficulties have been greatly aggravated by political upheavals and difficulties connected with outside political control. The consequence of all this has been a crying need for imports of raw materials, machinery, etc., on a large scale. For obvious reasons the only country that can supply such needs in quantity is the United States.

While the productive capacity of this country has shown itself on the whole equal to the foreign demands made upon it, no solution has as yet been found for payment by foreign buyers for their purchases made here. True, foreign dollar resources are by no means negligible. According to recent calculations, foreign dollar balances have been estimated at $6-7 billion. Foreign holdings of gold valued at $35 an ounce have been estimated at about $15 billion and foreign holdings of investments in the United States at $3½ billion. In evaluating these resources, however, allowance has to be made for the uneven distribution of those resources which often means that the largest dollar balances and gold holdings are not owned by those countries which want to make the largest purchases here. Furthermore, gold holdings are often looked upon as a protection for individual currencies and as an iron reserve to be spent only in case of emergency. Consequently, foreign nations are exteremely reluctant to spend their dollar resources on purchases in the United States, no matter how important they seem to them.

The importance of the present level of exports for domestic business activity is self-evident. At their peak in May, last, exports were at an annual rate of $17 billion. They have declined since but were still at an annual rate of about $13.4 billion in September. At the peak of the export boom following World War I they reached $8.2 billion and during World War II they did not exceed $14.3 billion. A reduction in exports which took place in 1921 when they declined from $8.2 billion to $4.5 billion is believed to have contributed to the severity of the recession of that period. A gradual moderate reduction now might not be harmful because it would take some of the pressure away from the price structure. However, there is no reason to wish for a sudden drastic contraction.

Living conditions in many parts of Europe are extremely depressed and help can only come from the one country whose industrial power was not impaired but was enhanced by the war. Whether or not the Marshall Plan will be carried out in its present form cannot be said at this moment. However, there is hardly any question that substantial aid to Europe will be extended by the United States in 1948 and 1949. The extent of this aid will, of course, be modified by the results of European harvests and by the speed of European industrial recovery.

The repercussions of the Marshall Plan on the domestic economy should perhaps be weighed in terms of maintenance of business activity at a high level rather than in terms of further expansion. Besides, exports to Europe were only 42% of total exports in 1946 and 36% of total exports in August, 1947. It can be seen, therefore, that the volume of future American exports will not be determined by exportations to Europe alone. Canada, South America and Asia all have their own dollar problems. Maybe, though, the recent efforts aimed at reducing barriers to world trade may have a favorable effect on U. S. trade with areas where the Marshall Plan will not be operative.

Construction

There is no need to stress the importance of construction activity for the economy as a whole. In the business forecast of the Westinghouse Corporation, mentioned earlier, the prediction of several years of prosperity was based largely on the expectation of intensive activity in the construction industry. In addition to housing demand, accumulated during the war years, there is generally believed to be an additional deferred demand caused by a sub-normal rate of construction for a number of years preceding the war.

As against widespread hopes that construction activity would show a continuous rising trend, the volume of new construction contracts this year has been somewhat disappointing. In line with the general trend on the part of consumers to question the prevailing price level and to think in terms of lower prices to come, a good deal of criticism was directed against the high level of construction costs and the low level of labor productivity in the industry. An uneven flow of materials also was blamed for high building costs. This development brought back to memory the experience of the construction industry after World War I when an equally steep increase in costs brought about a sharp decline in activity during 1921 and then an equally sharp and rapid decline in costs helped to restore construction activity within a short period so that volume attained a high level in 1922 when other industries were rather slow to recover from the recession.

Whether a repetition of the 1921-1922 experience will take place can not be said yet but it does not look as if the comparison will be too striking. A revival of confidence in business generally appears to have spread to the construction industry. Government forecasts of construction activity for the current year which were revised downward a few months ago have been subjected to another revision and more recent estimates predict a total construction volume this year of $12.5 billion as compared with a volume of $10 billion reached last year.

There is hardly any question that the deferred demand in housing is large. It may be so large not only because there is an actual deficit in construction but also because quality and size of accommodations demanded by the public have increased in recent years just as the standard of living has improved in some other respects, e.g., the consumption of food.

So far the failure of the construction industry to hit its stride has been no misfortune. Business activity has been so high that a rapid increase in construction this year would only have accentuated existing shortages and price squeezes. Next year may be a different story. Better availability of materials, greater productivity of labor and continued buyer caution may bring building costs down to a point where accumulated demand will finally assert itself actively and where the construction industry will become one of the main sustaining pillars of business for a number of years to come.

Temporary Prosperity

Business activity since V-J Day has been greatly more favorable than even the optimists dared to hope. Against an avalanche of difficulties such as physical reconversion of a giant war machine, long drawn-out strikes, sharp curtailment of government spending and a growing tide of recession forecasts, volume of production, distribution and consumer demand—all have held up at very high levels. The speed and flexibility of the economy in switch-

ing over from war to peace could not have been surpassed.

In the face of this good news, the temporary character of the present period of full employment is being stressed with increasing emphasis. There is no doubt that foreign trade cannot continue at present levels indefinitely and we have seen it shrink during recent months. Another big demand factor—the accumulation of inventories—cannot continue indefinitely. Government spending at present rates is still being subjected to growing criticism and curtailment. The war deferred demand for autos and other durable goods is going to be reduced constantly as production and supply of raw materials become more steady.

Even after all this has been noted, it still does not add up to the conclusion that the present prosperity is basically temporary in character. At least, it is not more temporary than has been any other period of prosperity experienced in the past. As it is, there will probably always be some sectors in the business of an industrial nation where an extraordinary demand makes itself felt for a temporary period only. The reason may be the development of a new industry, of a new foreign market, of a shift in living habits or some phenomenon such as the unprecedented foreign demand for American goods which stems from the dislocation of World War II.

One conception to get away from especially is that business activity stands and falls with the presence of a large accumulated demand. While this demand is unquestionably a big factor in business now, there have been many times when industrial nations were prosperous without the stimulating influence of a shortage in automobiles and refrigerators. In the machine age the main drive to create demand for goods and labor has been the effort to improve people's standard of living through the ever-growing use of machines and countless inventions.

Of the demand sectors which may be considered temporary due to their very nature, the one the prophets of gloom declared the first likely to cause trouble was the accumulation of inventories. As was natural after a prolonged war, business tried to rebuild its inventories as soon as materials and finished products were available in quantity again and it was obvious that as soon as inventories had been rebuilt, demand from this source would vanish. Sometime about the middle of 1947 it had practically come to a stop but where was the recession which was supposed to follow cessation of inventory buying? Obviously the slack was taken up by some other sector of business. Exports are most frequently mentioned. Now people are beginning to worry about how we will offset a—say—$5-$8 billion drop in exports. With domestic shortages and prices being what they are, this question seems rather academic right now. Some decline in exports at least should be readily absorbed by domestic demand.

However, even if this were not so, it would not necessarily be bad. A temporary slackening in business activity might create a better balance in many fields and thereby encourage the emergence or revival of industries where there exists a large demand but where prices, labor or other difficulties have so far prevented a smooth level of operations being attained. The construction industry is a case in point. It may become the backbone of business activity for many years to come. It has not yet hit its stride. However, the latest reports mention a rather unexpected increase in building activity. Maybe construction will step forward just at the time when some other demand sector will be drying up. In any case, prosperity does not depend solely on inventories or exports.

One might go one step further. Even if business were to decline and settle at a level 10-20% below the present peak, it would be no disaster. It has already been discovered that full employment is no unmixed blessing. Maybe functioning of business at a rate somewhat below 60 million jobs will help to ease the shortages and the pressure on prices which we are experiencing now. As Professor Slichter pointed out recently, full employment creates problems of its own. However, they are more pleasant than those associated with a depression. At this moment, a depression seems far away. In view of that, concern over the possible length of any "correction" or "recession" may have been carried farther than necessary.

Construction Faces New Decisions

(Continued from page 9)

bitious GI apprentices. These are the men who a few months ago stepped out of uniform into a pair of overalls and started learning how to lay brick, apply plaster, drive a nail, wire a house and thread a pipe. It is truly remarkable how rapidly and how competently these boys are filling the depleted ranks of our skilled construction labor.

You must remember that today the average age of our skilled construction labor is around 55 years. It is through ignorance or ill grace that our critics condemn the construction industry for this fact. Did we not just fight a war with young men? There was no pool for apprenticeship under the draft. Did we not prior to that war just pass through a 10-year depression when we held out no incentive to youth? In 15 years a man of 40 becomes 55.

Now with our GI apprentices swinging into stride, it is not inappropriate that we suggest that those who criticize look to circumstances today and not eight and ten years ago for the ammunition to load their muskets! They should remember that the boys whose chosen industry they are attacking have had experience dodging rockets and other missiles of modern muzzle velocity. They should remember, too, that there are considerably more than 100,0000 of these young men today enrolled under the banner of construction industry apprenticeship.

Let us lay our cards on the table. Let us analyze the cost of building, whether it be a home, factory or store.

The high cost of building is due to four primary factors: One, the high cost of taxes; two, the high cost of materials; three, the high cost of labor, and four, the unsteady flow of material and labor to the job. This last factor is due to dislocations and shortages of both material and labor. It has a prime influence on productivity and productivity is the basis of building cost. This condition of flow is improving as prices become firm and delivery definite. It is the cause of an improving curve of productivity in our industry.

Costs Will Be Stabilized

There is abundant evidence that, if at least current conditions prevail, the cost of construction will become stabilized. We cannot guarantee that because there are too many contributing factors outside of our industry and beyond our control. But the prospect is reasonable.

Construction is performed for the most part by numerous small businesses. There are in the construction industry more than 200,000 contractors. With but few exceptions, they are small businessmen. These are tens of thousands of small business firms engaged in the distribution of construction materials and equipment; thousands engaged in the manufacture of this material. There are thousands of small businessmen engaged in the financing of building: tens of thousands in engineering and design. In fact, a very large percentage of our almost 4,000,000 centers of individual initiative which constitutes the American free enterprise system are engaged in one way or another with construction.

It is a tribute to the genius of the American system that so many and so diverse a group could be brought together to achieve the miracle of almost 1,000,000 houses a year in the face of trying material shortages, adverse labor conditions and interference from many sources, not the least of them the Federal Government. It must be a phenomenon to eternally confound the economic planners.

Here is an example of the superiority of the versatile, efficiently small unit of the economy being able to react effectively and quickly to a need. It is testimony in favor of the small businessman with his compact, skilled management. Could the mere ponderance of bigness have done as well? We doubt it.

Yet some of our critics assail us because the construction industry is a maze of small units, buying, as they say, at retail, and employing the technique of custom fabrication instead of mass production. These critics seem to disregard some important considerations. Their reasoning continually harps back to the assumption that in bigness there is virtue and efficient low-cost production.

We challenge that assumption.

If the demand for construction could be guaranteed at today's high level for 10 years or more, without diminution, perhaps the argument for bigness of the construction organization would make for low cost if—and this is important—the large operator could exploit without cost to himself the years of effort and cost in training skilled mechanics for the job, and the efficient sources of supply nurtured and built up to efficient level by the patronage of many small customers whose diverse demands create a reasonably steady level of demand year in and year out.

Yet that is precisely the bill of goods that some attempt to sell to the public. They use all manner of devious threats and coercion to gain their ends. Even arms of the Federal Government are being subverted to political ends to reform conditions that today produce high-level production and the satisfaction of wants. The prospective result of some of this intervention is entrenchment of a monopoly dwarfing in magnitude the objects of current attraction.

We are not perfect. But this furor about alleged wasteful methods of distribution, about alleged restrictive practices, and many of the other notes of the popular critical theme song that is being replayed on the political jukeboxes today, even if all of it were true, would be but a drop in the bucket in the cost of construction. Some of these practices are bad. I oppose them. I call on the industry to rid itself of them. They do nobody any good. They bring more harm to those who try to foster them than they harm the public. The exercise of this evil is a matter of exercise of good public relations within the industry and is not the terrible dragon presented so often to the public. It is our job. Let us take care of it with dispatch.

Our construction industry is completely dependent upon productivity. This is primarily a responsibility of management, but it cannot be achieved without the fullest cooperation of labor.

Insufficient Skill of Workers

Much of the present unsatisfactory level of productivity is due to the lack of skill of many workers who came into the industry as a result of war's demand for labor. Their lack of skill is pulling down the productivity of their fellow workers. It is lowering the average. It is an obligation of labor for its own self interest to take immediate and effective steps in helping to train these men and to qualify them by practical test.

It is true that average worker's outlook is conditioned on the idea of boom and bust in our construction work. It is a lesson taught by bitter experience. I do not regard a bust as inevitable, or even in prospect. The work before us is too huge, and so enduring that we look out upon five to ten years of unprecedented activity. It is necessary that the worker in the ranks see this vista. When he does the urge to restrict production, to hold back and to prolong the job, will fade, for the construction worker is primarily a progressive, industrious citizen willing to give a good day's work for a good day's pay. He just doesn't want to get caught on the short end. It is our job of public relations—employee relations—to make him see the job ahead is such that he will not be working himself out of a job by being truly productive.

Let us look at this picture realistically. The Department of Commerce tells us that new construction activity of all kinds is about $5\frac{1}{2}$% of gross national product today. Before the war in periods of active business it amounted to 10%. According to that reckoning, we will need to increase our present new construction activity by 100% to reach a relatively high level, using past performance as our measure of "relatively high."

What does this mean? A monthly volume of $3,000,000,000 and an employment of 4,000,000 men. That's a challenge to all of us—labor and management to get the "mostest of the bestest there firstest."

Recommendations

What are the lines we must follow to meet the problems of the construction industry?

First, we must keep the public informed. We must let the public know what construction means to our economic health and high standard of living and what the industry is doing to improve its service to the public.

Second, we should examine critically the fact-reporting agencies which serve this industry. We need to know correctly and accurately where we stand, what our volume of activity is, broken down in usable categories, and what its relations are to the rest of the economy.

Third, we must bring about more stability in construction activity. We must encourage the advance planning of private and public work, and other measures, which will tend to stabilize the flow of private and public funds into needed construction.

It is essential that suppliers where they have not already done so reestablish and continue their customary practice of quoting and honoring firm prices and of maintaining definite delivery on specific projects on which the quantity of material and time of delivery are known factors. It is not intended that all prices be maintained rigidly. The suggestion means simply that the supplier limits his risk to specific projects of his own choosing. This will be of great assistance to contractors in their efforts to stabilize prices, and thus will open the door to investment dollars now in hiding.

There are pending in Congress bills which would continue on a permanent basis the present repayable grants administered by the Federal Works Agency for use by states and cities for advance preparation of architectural and engineering plans for needed public works. We should endorse the principle underlying this legislation.

Fourth, we should widen our markets and develop new ones. To accomplish this we must stimulate technical research. We must encourage the application of the techniques of mass production to the decentralized organization and operations of the building industry. We must take an active interest in programs for urban redevelopment which are of direct interest to all branches of construction—highways, building and heavy construction work.

Fifth, we must modernize building and other codes and improve their administration. Our objectives must be to protect the public life, health and property and at the same time to permit the exercise of individual initiative in improving the design, the materials, the equipment, and the methods of assembly or work which go into building and other construction.

Sixth, we must accelerate and intensify the industry programs for apprenticeship and training, including refresher courses.

Seventh, we must make every effort possible to keep costs down. We always have problems of costs and we always will. They are acute now, however, on account of the postwar increase in the general price level. Costs are up in all lines of business activity, no more so relatively in construction work than is the case with other services and commodities. We are all in this postwar price boat together. We all have a great stake and a serious responsibility to do our part in keeping the boat afloat by stabilizing the price structure.

This stabilization of prices, if past experience is any criterion, will have to be on a level permanently higher than before the war. We will have to find this level by a series of adjustments. We will do that best in a free market.

Denunciation of business and the tactics of anti-trust prosecution fail to go to the heart of our problem of inflation. The prescription for the whole economy is simple. It has been stated as follows:

"The need is to work and produce more effectively, consume more economically, and maintain stability in wage rates, to prevent another turn in the spiral while production, competition and economy bring prices back into adjustment."

That is the cure for inflation. Will we take it?

In the long run, the construction industry can exert its most powerful downward pressures on costs by investing more heavily in the training of skilled men and in technical research. Construction offers real opportunities to aggressive young men and we must see to it that they are trained to take advantage of them.

We have an unparalleled opportunity to initiate a far-reaching activity through the Building Research Advisory Board. That Board in its own different and distinctive way should and can become to the building industry what the Advisory Committee on Aeronautics is to the aviation industry. It can take its place beside the Highway Research Board as a second strong arm in the construction industry's progressive and forward looking efforts to improve its service and to render an even greater contribution than it has in the past to the country's economic welfare and security.

Our job is to build. We are secure in our knowledge that we are doing a good job. We also have the obligation to replace in the public's mind the amazement of ignorance with the sureness of knowledge.

As We See It

(Continued from first page)

happened in 1946, not only in the political arena itself but in the markets in which the housewife—and all the rest of us, for that matter—are accustomed to finding the necessaries of life. The bare shelves in the so-called legitimate markets, and the prices in the so-called black markets, with limited supplies on hand at that, are matters not easily erased from memory. Since President Truman, reading the election returns in a realistic way, removed most of the controls, prices have risen to a point where they now constitute a political problem of considerable magnitude. But the politicians are undecided, confused and divided on the question as to what to do about them. They know not whether to suffer the ills they have or fly to others the sting of which they have learned by sad experience.

The Real Price Situation

It is about time the authorities, and, probably, many of the rest of us, faced this price situation more understandingly and more realistically. Nothing is to be gained by further nursing of delusions on the subject. Attempts to control prices by fiat not only fail, but would in every real sense be a failure even were they to succeed for a brief period. Efforts to reinstate price controls or rationing, or both, might or might not defeat some politicians next autumn and elect others, but it may be taken for granted that neither of them would in the least contribute to an elimination of the underlying conditions which are responsible for the situation of which complaint is made. On the contrary, they aid mightily in the perpetuation of these conditions.

Shout as loudly as the politicians or would-be politicians may about "speculation," "monopoly," "profiteering," and all the rest, the fact is, of course, that the rising price trend of the day is a direct result of the excess of "effective" demand over supply—and can be traced in no large degree to anything else. Now, current demand is an outgrowth in part of the destruction of war with its resultant reduction of supplies below the point of real if not desperate need. The demand of these unfortunates becomes "effective" by reason of the generosity of others less adversely affected and now generally more fortunately situated. In the degree that it does become thus "effective," it adds to the call for current output without either increasing production or reducing demand elsewhere—unless, of course, the benefactor reduces his consumption. How it is that the benefactor can "contribute" to the relief of others in existing circumstances without reducing his own consumption of the articles in demand will become clear as this discussion proceeds.

Money Supply

Partly as a result of New Deal profligacy and New Deal effort to woo prosperity by deliberate inflation, partly as an outgrowth of war extravagance run wild and of faulty war financing, and perhaps, in dollar terms, most of all as a politically inevitable effect of the most costly war of all time, the supply of money in the hands of the general public is so large that it would have been regarded as fantastic by any living man less than 10 years ago. Accustomed as we have become to astronomical figures it is still almost incredible that currency and bank deposits in the hands of the general public total $165 billion as compared with $60 billion in 1939 after six years of New Deal squandering. Even less credible, or creditable either, is the fact that this figure rose more than $5 billion during the past year, a period of months which might almost be termed the second full postwar year, and is now nearly $15 billion greater than it was when the war ended.

Now, there appears not to be the slightest question that these funds are more widely held than ever before in our history, or, for that matter, in the history of any other country on the globe. It is all very well for the Federal Reserve or any other "research group" to come forward with "sample" surveys employed by many crackpots as evidence of "concentration" of the holdings of "liquid" assets of the country. They may or may not be "concentrated," depending upon the definition of that quite elastic term, but we are quite certain that they have never before been less "concentrated" in the hands of the "fortunate few" than they are at this time. In addition, of course, the great rank and file hold demand obligations of the Federal Government in amounts never before dreamed of. These obligations, or many of them, were sold to Tom, Dick and Harry on the plea that they could be held to provide funds for postwar spending. It might be misleading to add the war savings bonds outstanding to the increase in money supply to measure current purchasing power accumulated from the past, but it is obvious that they must all be taken into account.

Velocity

It ought by now to be evident that one need not be a "quantity theory" extremist to agree readily enough that the price level in these circumstances is fixed and will be fixed very largely by the rate at which the public at large decide to make use of these funds—that is the rate of "turnover" or what is commonly termed the "velocity" of money turnover. The upward pressure on prices caused by increased activity of funds already in hand could in appropriate circumstances be substantially reinforced by any decision that holders of war savings bonds might reach to convert their holdings and put the cash into the markets. It is to be observed in this connection that during the past year or two there has been no indication of a sustained movement toward more active employment of funds. Indeed the trend has apparently been slightly in the other direction. The rise in prices during this period was evidently supported by a $15 billion increase in money supply.

Of course, supporting this large increase in stored up purchasing power (or to be less polite, this stored up inflation) as a price factor, has been a long accumulating consumer deficit of many types of goods. It must not be forgotten that a long period of depression preceded the feverish activity of the war years. Any current or future purchases for foreign shipment may or may not add, dollar for dollar, to the demand for goods, depending upon circumstances, but they certainly can do nothing to subtract from it.

Not only how ill-conceived, but how puny many if not most of the anti-inflationary steps now being proposed appear in light of such facts as these!

Our Basic Economic Problems

(Continued from first page)

way of life is predicated upon Adam Smith's enunciation of the idea that every man, so long as he does not violate the laws of justice, should be "left perfectly free to pursue his own interest in his own way and to bring both his industry and capital into competition with those of any other man, or order of men."

Marx turned to revolutionary ends the proposition that "the value of a commodity, or the quantity of any other commodity for which it will exchange, depends upon the relative quantity of labor which is necessary for its production."

Leonard Dalton Abbott, in his Master Works of Economics, points out the differences between the two systems, somewhat as follows: "Marx applied his construction to the 'class struggle' of capitalists and wage workers. He believed that the capitalistic system is based upon exploitation and that its irreconcilable conflicts would lead to its dissolution. Just as slavery passed into serfdom, and as feudalism passed into capitalism, so, according to Marx, capitalism in its turn will pass into socialism."

The struggle between these two forces has been going on for more than three centuries. Incident to these political struggles there have been coincidental but likewise very important economic struggles.

Abbott further says: "The economic pendulum has been swinging between liberty and legislation, between competition and cooperation, between capitalism and some form of collectivism. The debate is still going on. While neither side in innumerable disputes can be said to have won complete victories, we are bound to recognize that society in America, as well as in most of the European countries, has been moved toward economic democracy and extension of government functions."

Many of us contend that it is the province of government to find the golden mean between these two extremes. In present day America our economic problems can be solved only when and if we have established the extent, if any, to which our government should try to manage our economy.

Battle of Ideologies

As late as last Monday, this centuries-old issue was laid squarely before the American people. The battle between the ideological forces of socialism and the American way of life based upon our constitution, rages on. Socialism vs. democracy, capitalism vs. managed economy, regimentation vs. free enterprise. These are the issues which must be met squarely; these problems must be solved by the American people before we can ever hope for economic and social stability in America and peace throughout the world.

There should be no question in our minds which political course we should take. Autocracy, socialism, communism—collectivism in any form—is as undesirable and as ineffective an instrumentality for governing any people as is a pure democracy. There is little or no difference between absolute monarchies and the different governmental forms of collectivism. Both, in the last analysis, are despotisms. Each of them is unworkable unless sovereignty is vested, paradoxical as it might seem, in an individual with unlimited political power.

Pure democracy has been characterized as mobocracy. No true democracy has ever successfully functioned as the governing instrumentality of any large number of people. Our forefathers effectively found the political golden mean between these two extremes. Consequently, we have under the American constitution, this very novel American form of government. It should be our objective to likewise find the golden mean between the extremes of economic philosophies. When we shall have done so the progress of the United States should continue to be as constant as it has been during the first 160 years of our existence as a nation.

The United States is the greatest nation on earth. We don't have to argue it. It is self-evident With a population of less than 7% of the population of the world, we normally produce and consume in the aggregate, more than 50% of world's goods. That is a record which is accepted without challenge. It is a record made possible because of and not in spite of the American form of government. It is a record which we can maintain only so long as we adhere to our American principles and our American system of free constitutional government, free economy and free society. Only as we continue to protect the right of every individual—so long as he does not violate the laws of justice—to be "left perfectly free to pursue his own interests in his own way and to bring both his industry and capital into competition with those of any other man, or order of men."

With these thoughts in mind, let us take a look at some of the basic economic problems which confront the United States and let us also have in mind how necessary it is that our problems be settled early and effectively if we are to have world economic, political and social stability and lasting world peace.

Prime Importance of Inflation Problem

I think we could well consider inflation as the economic problem of primary importance. All of our other economic problems are incidental to it. They can all be solved together.

The causes of high prices in the United States are pretty well known.

First, Production for war purposes left us with a tremendous shortage of all consumer goods. At the same time, this production has created more per capita purchasing power than we had ever previously enjoyed. Before enough consumer goods could be produced, the demand resulting from high purchasing power had started the upward rise of prices.

Second, Deficit financing, due to war, had created a national debt of about $278 billion, most of which under our system of monetizing debt, is a decided influence on the value of the American dollar. Under the American quantitative theory of debt monetization, the higher the debt the cheaper the dollar; the cheaper the dollar the higher the prices.

Third, An archaic tax system has been an influence against any broadening of the production base, so that we find it impossible to produce to capacity to meet the demand.

Fourth, Almost 90% of production costs, are represented by wages which have remained high enough so that the demand for goods in short supply has come from current earnings. Some, but not all, corporate earnings likewise have been very high. All of this has resulted in the continuance of large amounts of "static" savings and idle capital. Add to this the demand for goods incident to the creation of large foreign credits.

According to the October report of the Council of Economic Advisers to the President which dealt with the impact of foreign aid upon the domestic economy, we are raising in the United States through government, semi-government and private financing sources, at the rate of $11 billion a year to finance an export surplus.

In the first three quarters of 1947, the dollar value of exports was running at the average rate of about $19 billion a year. The dollar value of imports of goods and services for the same period was running at the average rate of $8 billion a year. The export surplus is about $11 billion.

Fifth, The availability of increasingly large volumes of easy money credits.

Now that the causes of the inflationary plaque are fairly well

known, every effort should be made to find the cure.

The causes of high prices may be summed up as follows:

First, The shortage of goods against high purchasing power.

Second, Excessively large amounts of government spending.

Third, A tax structure which discourages maximum production.

Fourth, Idle capital and savings.

Fifth, Large volumes of easy money credits.

The President's Proposals

The big problem is what can be done about it? The President in his message last Monday made certain general recommendations as possible panaceas for our economic ills. Many of his proposals are as opposite to the American system as socailism is the opposite of democracy. The American people have always come up with a solution of their problems if they had an understanding of them. All our problems, economic, political and social, have been solved within the framework of the American Constitution. We can continue to solve our problems best if we adhere to the fundamental principles of the American way of life. To borrow from the works of Marx in any respect is to court financial and economic disaster at a time when the perpetuation of the American way of life is more essential than anything else which can be imagined.

We can remove further threats to a depreciated currency by balancing the Federal budget and retiring as much of the debt as possible.

We can adjust our tax structure in such a manner as to encourage maximum production. This can be brought about through adjustments in the tax base which will encourage expansion of plants and give assurance to producers, agricultural as well as industrial, that they are not going to be penalized by expanding their production. When we have made the necessary adjustments in the tax base to encourage production, much of the idle capital and savings will be put to use in the production of capital goods, in the expansion of capital structures, and can result in many instances in doubling production capacity and effort of our farms and factories.
and effort of our farms and factories.

The impact on prices incident to domestic buying for foreign account can be largely offset by a curtailment in government expenses. If there is sufficient cooperation between the President and the Congress, the costs of government can be reduced amply to take care of all foreign-aid requirements, both for interim aid and for long-range programs of reconstruction and rehabilitation. But, in order to lessen the impact of foreign aid on domestic prices, the monies raised for these purposes must be carefully and judiciously expended. The Congress will not advance to the State Department large sums for either interim or long-term aid without requiring the money to be spent and invested in accordance with certain sound standards. Foreign aid can be most effectively administered by the creation of an independent agency of the government. A corporation, we will say, with a relatively small capital, with authority to expand this capital a given number of times by the issuance of the agencies' notes, bonds and debentures. The money can and should be spent under well defined standards to give the maximum amount of aid with the least amount of dollar diplomacy. There is no reason why foreign countries should not pay for a large part of the aid given in the currency of the recipient country. A pool of foreign currencies would thus be created from which loans might be made for productive enterprise in the country receiving the aid, or in other countries whose currency might be converted into that of the recipient country. The expenses in the recipient country of the United States for diplomatic, consular, military and other purposes, could be paid from this pool, thus removing the necessity for equivalent large amounts of American dollars being exported to pay our current expenses in those countries.

What's Expected of Foreign Aid

If our foreign-aid program is successful over a course of years, the economy and currencies of the recipient countries will be stabilized. This would activate the International Monetary Fund in such a manner that the currency of the recipient country can eventually be converted into dollars. In that way, the United States taxpayers could be assured that a large amount of their investments for foreign aid will eventually be repaid either in dollars or goods.

If the interim plan is successful, we will recreate the ability of the people receiving the aid to work. We will help them get the strong bodies by which they may work and thus create the capacity to work and produce for themselves. If the interim aid is wisely administered and results in the attainment of this basic objective, then these countries may become good risks; there will be reason to presume that loans to them can be repaid, thereby opening up a new reservoir of credits, Export-Import Bank credits. I am fairly certain the Congress of the United States, if the interim program is successful, will not hesitate to increase the capital of the Export-Import Bank by reasonably large amounts to make available all necessary funds for the production of producer and heavy consumer goods. Thus, we enter the second stage of our program of foreign relief and rehabilitation.

It is only a step into the third stage in which the foreign country may by proper application of its resources, put itself in a position where it can qualify for the use of other and larger reservoirs of credit originating in the International Monetary Fund and the International Bank for Reconstruction and Development. The financial assistance which could thus be made available for rehabilitation, and stabilization, and permanent prosperity all over the world would be for all practical purposes, almost boundless.

The foreign aid program can be effectuated with much less money than is being asked for. I have no hesitancy in saying the job can be done under proper management with one-third of the amount requested by the Paris Conference and by the Administration. We must exert every effort to assure tha tall possible factors of foreign rehabilitation and stabilization are fully utilized to save every dollar of American money possible. And why should we do this. Because of the impact which the financing of any foreign aid program will have on the value of the American dollar and on American commodity prices. These factors are first of importance as an aid to our own economic stabilization. The vital economic problem in the world is right here in America. The most pressing necessity is the stabilization of the American dollar and the American economy.

Keep the Dollar Stable

Let us have very definitely in mind that under the Bretton Woods Agreements the currencies of all the major countries of the world, except the Russian ruble, are practically speaking, as effectively tied to the American dollar as they formerly were tied to gold. In consequence, any fluctuation or disequilibrium in the American economy, and the American dollar, is immediately reflected in currency and economic fluctuations all over the world. We should be proud of the position we hold, but we should not be unmindful of the responsibility to keep America and American institutions strong and stable against the possibility of world economic, social and political chaos. Only a sound, solvent, safe America can be the anchor for an enduring world recovery and peace. We cannot be so under an economy managed by the government. If we have proved anything since V-E Day it is this fact, that government with its self-seeking bureaucrats, starry-eyed theorists and temperamental tamperers, frequently dominated by political emotionalism, cannot successfully manage our economy. The President's proposed panaceas for the ills of our economy should be studied in the light of our past painful but enlightening experiences.

Chiseled on the Archives Building in Washington is the truism that "What is Past is Prologue." It almost follows as a matter of course, in the light of our experiences, that price controls, rationing, priorities and allocations, whether on the producer or consumer levels, cannot be administered without serious set-backs to our production effort. The only sound practical solution for our economic problems lies in the full use of America's capacity to produce, and the freedom of consumers to choose what they desire in the marketplace. Everything the government does must encourage increased production, not slow it up.

Evils of Controls

Price controls, allocations and priorities, beget a vast brood of contradictions and uncertainties. They promote illegal operations; they encourage black markets; they open the doors to many other evil influences which will deter, but never can encourage production. In being realistic we must recognize that if the President is given the power to control prices, power to allocate and ration, and power to discriminate through the use of priorities, yes, even if he is given the power to control wages, he is not going to roll back prices; he is not going to roll back wages. To do so, he knows, you know, and I know, would be disastrous. Is he going to freeze wages and prices where they are now? To do so, he knows, you know and I know, would invite strikes, production slow-downs, and many other conditions which would raise havoc with production. How can he use power to allocate goods in such a manner as to effect in any degree the general price level? If he borrows steel from the appliance industries to increase the production of automobiles, he might possibly lower the price of automobiles temporarily. If the automotive industry had enough steel, it would theoretically double its output, but what would happen to the price of appliances? The saving on the price of automobiles would be completely offset by the increases in the prices of appliances. This illustration might be applied to almost every segment of our economy. Why rob Peter to pay Paul and disrupt our whole economy in the process?

Up to the present time the President has not been able to give us—although he has been requested to do so—an example of what commodities he seeks the power to allocate or control by priorities. He has given us no inkling of what commodities he would select upon which he would impose price controls. He has given us no information whatsoever as to what wages, in which industry, he would seek to control. By the very lack of this specific information, or at least enough of it to offer a basis for clear thinking, he may have created such uncertainty as seriously to affect the production of many consumer and producer goods.

Problem of Credit Controls

The President has asked for authority to control credits. The traditional, tried, and safe method of controlling the velocity and volume of credit has been to raise and lower bank reserve requirements and re-discount rates. The Federal Reserve Board now has the authority to raise rediscount rates. Rediscount rates are now about 1%. Under the authority of existing law, rediscount rates have been as high as 7%. If it is found advisable to raise reserve requirements, then new legislation is necessary. I do not attempt to predict what the Congress will do in this respect, but, personally, I can see no harm in giving the Federal Reserve Board authority to raise reserve requirements. Of course such authority would have to be within well defined limits. Up to the present time the Federal Reserve Board has not asked the Congress for any authority to raise reserve requirements.

The Federal Reserve Board has asked for legislation authorizing it to guarantee bank loans. This seems somewhat inconsistent with the policy of the President to contract credit. For this reason the power to guarantee loans will probably not be given to the Federal Reserve system at the next regular session of Congress.

The President has asked for authority to control consumer credits. He now has the authority, under existing law, to reimpose controls over consumer credit by proclaiming an economic emergency, and if there is any question about his authority, I believe the Congress would not argue too long about that matter. But what effect will the control of credits on the consumer level have on domestic commodity prices? Hardly a ripple! High prices today are not the result of credit inflation. Such controls over the volume and velocity of credit would have little or no effect upon prices. It might be a desirable technique to have handy when and if there is a threat of inflation incident to any decided increase in the volume and velocity of credit.

The President in his message asks for rent control. When we continued rent control until Feb. 29, 1948, there was some hope that through the removal of governmental obstacles there would be such an acceleration of residential building that the demand especially for rental properties, might be reasonably met by next March 1. In any event we will have to take up the question of continuing rent controls shortly after the regular session convenes. If it appears, then as it does now, that the demand for rental properties will not have been reasonably met by March 1, we shall give consideration to the continuance of rent controls, any new legislation must be in such form as to continue the encouragement already given to the construction of rental units. The greatest possible benefit to both tenant and landlord must be achieved. In all probability, rent controls will be continued in some form for a definite period after next March 1.

Public Housing

While we are on the question of rents and housing, it might be well to clarify our thinking in respect to public housing, especially slum clearance. There is a basic issue involved in this connection which has never been effectively legislated on by the Federal Congress. It will be our objective at the next session to determine whether slum clearance and public housing are the primary resposibilities of the Federal Government, or the primary responsibility of the State Governments. The settlement of this policy will determine our course for possibly generations to come. It is important, in that it affects to a large measure basically our attempts to stabilize our economic and social systems. It is important, in that billions of dollars will be expended by the State and Federal Governments in the years following its statutory adoption. After the policy has been determined, the writing of the bill to effectuate the policy is almost a matter of routine. If it is established that it is the primary obligation of the Federal Government to clear slums, and build houses for low rental or otherwise, then it merely becomes a matter of how much money we will appropriate annually out of the Federal Treasury for the generations to come. It is a simple matter to set up the machinery and the standards for the effectuation of the policy, including the proportion of the cost which State Governments shall be expected to contribute. If it is determined that it is a primary obligation of the States, then the writing of the bill to effectuate that policy is equally as simple. It becomes a question as to what amounts the Federal Government shall authorize or appropriate for grants-in-aid, and the standards upon which the expeditures shall be contingent. We have the precedent of the Highway Act for guidance in this respect.

In summary, we will not make the mistake that has been made in years gone by in discussing this problem. We will not set up the machinery, and then build a policy around it. We will do the first things first. We will establish the policy once and for all, and then provide for the machinery by which to carry out that policy. There is little doubt that this matter will be definitely settled at the next session of Congress. This policy will be formulated and this bill will be written in the House Banking and Currency Committee after full and complete hearings.

Hard Work and High Production The Remedy

It has been a pleasure to be with you tonight. Let me, in closing, say that I believe David Lawrence in a recent article summed it all up when he said in substance that there was nothing wrong with the world, and that includes the United States of America, that hard work, high production and sound fiscal policies will not correct. It should therefore be our objective to encourage work and production to the extent that through production we will cure all of our economic ills. Can anyone deny that the only solution of the economic problems confronting the United States lies in producing to an ever expanding full capacity? And that full production must ensue not only at home, but especially in those countries which are the recipients of our aid? Only in that way can sound fiscal policies, which we hope will be patterned after our American system, be attained.

Cyril J. O'Connor & Son Formed in Brooklyn

BROOKLYN, N. Y.—Cyril J. O'Connor & Son has been formed with offices at 188 Montague Street to engage in a securities business. Partners are Cyril J. O'Connor, formerly with Hare's Limited, and John J. P. O'Connor.

Odess Opens New Branch

TUSCALOOSA, ALA. — Odess, Martin & Herzberg Incorporated has opened a new office at 2313 Eighth Street under the management of Owen C. Leslie. Mr. Leslie for many years was with Merrill Lynch, Pierce, Fenner & Beane in Birmington, and was Tuscaloosa correspondent of Fenner & Beane.

Forces Shaping Business Outlook

(Continued from first page)

despite even broader powers than those now requested, does the Federal administration really mean business this time?

Second, Even if the Federal administration is finally ready to adopt a concerted anti-inflation policy is it not locking the barn door after the horse has escaped?

Some of you may have been present here in May of 1946 when I spoke to the American Industrial Bankers Association on "Avoiding Boom and Bust in the United States." I then pointed out that the great problem of the post-war transition period was not, as many people thought, a problem of avoiding unemployment. It was a problem of preventing price inflation. Permit me to quote a few sentences from my remarks, which are still in point today:

"OPA combats the symptom rather than the cause of price inflation. Direct price control is being used as an excuse for evading the responsibility of following non-inflationary monetary, fiscal, and wage policies. A government which permits politically powerful labor and agricultural groups to raise prices, while holding down the closely-related prices of other economic groups, is not being honest. The first step in any real program to prevent further price inflation is an unswerving policy of forbidding any wage increases with inflationary consequences. The present situation calls for a strongly deflationary monetary and fiscal policy. The two basic methods of accomplishing these results are to create a substantial surplus in the Federal budget, and to tighten the money markets."

Administration's Anti-Inflationary Policy a Failure

In fact the Federal administration never has made a concerted effort to stabilize the price level. Its actions have been a tissue of inconsistency. It has exhorted businessmen to reduce prices while encouraging labor unions to raise wages. It has penalized landlords for raising rents while promising farmers to support ever higher prices for their products. It has maintained easy money conditions and made possible a large expansion in business and home mortgage credit while attempting to curtail the extension of consumer credit through Regulation W. Small wonder that many of us are skeptical of the ability of the administration to deliver price stability today.

When I spoke eighteen months ago, the wholesale price index stood about 40%, and the cost of living index about 33%, above their levels in 1940. Since that time, OPA price and rationing controls have been abandoned, with the exception of those on rents; excess profits taxation has been discontinued; general wage increases of substantial amount have been made with the encouragement of the Truman administration; a substantial surplus has been developed in the Federal budget largely due to rising prices; a tremendous export boom has mounted to a climax; business expenditures for inventory and for new plant and equipment have been heavy; consumer outlays for goods and services have reached all-time peaks; and a halting but persistent rise in residential construction has occurred. Under the impact of all these forces, prices have surged upward with frightening rapidity. Today, the wholesale price index stands at about double its 1940 average; the cost of living index is more than 60% over its prewar level.

Are Higher Prices Coming?

Now, we ask, are further large increases in prices in prospect? Are the forces shaping the business outlook as we approach the close of 1947 driving the economy toward further inflation and distortion in the price structure? Or have the forces making for price inflation played themselves out, and may we expect some decline in the aggregate demand for American goods and services in 1948, with a consequent fall in employment and income and an easing of prices? To supply a reasoned answer to these questions, it is necessary to examine the principal political and economic forces that are likely to be at work in 1948.

In interpreting the probable events of the next year, it should be borne in mind that the present price structure is seriously distorted. This distortion may be seen in the behavior of the principal components of the wholesale price index. While the rise in the all-commodity index since 1940 has been about 100%, prices of farm products have risen 125%, raw materials 98%, semi-manufactured goods 71%, and manufactured goods 65%. The extraordinary wartime and post-war demand for food and fibre—products of the farm—has generated the largest price increases in this field. The same type of distortion exists in the consumers' price index. Against an overall increase of about 60%, food has risen 95%, clothing 87% and house furnishings 85%; whereas miscellaneous household equipment has risen only 38%, public utility services 18%, and rents a bare 8%. Farm products and the closely-related commodity groups of textiles, hides and lather goods, and foods have been the bell-wether of price inflation, along with certain basic metals.

If the United States is to return to a set of price relationships somewhat resembling that which existed before the war—even at a much higher average level of prices—one of three things must happen in the future: first, prices of farm products and their derivative commodities must fall; second, further rises must occur in the prices of manufactured goods, rents, and public utility services; or third, both the first and second types of price movements must occur simultaneously. For reasons that I shall give in a moment. I believe that both types of price movement will probably occur during 1948. There is some evidence that they have already begun. During the past three months, prices of manufactured goods have risen more than prices of semi-manufactured goods; prices of semi-manufactured goods have risen more than prices of raw materials; and prices of farm products give signs of having reached the apex of their spectacular rise. While 1948 will undoubtedly witness further increases in these prices that have been laggard in the upward procession of the boom, the probabilities are that the forces behind the post-war price inflation have almost spent themselves, and that no further large increase in the all-commodity index of wholesale prices will occur during the next year or two. There may be a moderate decline in this index.

While these are the probabilities, it is nevertheless possible that unexpected strength of demand for goods, general wage increases, unwise tax reduction, or untimely credit expansion may prolong and intensify the present boom. It is this possibility that makes desirable a Federal anti-inflation program. For further price inflation would guarantee a severe instead of a moderate recession. More serious distortions in the price structure would take more time to eradicate. In no facetious vein I say that a moderate recession from present boom conditions would be the best thing that could happen to the United States in 1948. Such a recession would bring an end to increases in cost of living; it would ease the upward pressure on wage rates; it would reduce the present large excess of unfilled jobs over job seekers; it would increase productivity and the efficiency of industry.

The amount of price inflation we have already had in the United States has had adverse effects upon markets. It has produced a highly inequitable redistribution of real income. Persons with inflexible dollar incomes have already had to curtail their standards of living, while those with flexible dollar incomes have suffered no loss or make gains. It is no overstatement to say that the sharp rise in cost of living has already priced automobiles, refrigerators and other durable goods of high unit-value "out of the market" for millions of teachers, pensioners, civil servants. So far this has not limited sales of these commodities, because the rest of the public will take everything that can be produced. But as supplies of these items catch up with demand, the reduction in the potential market will become a reduction in the actual market. You who are concerned with financing the sale of durable consumer goods cannot view this fact with equanimity.

Let us examine the principal forces that will shape the business outlook in 1948. What are likely to be the demands made upon American production by consumers by business enterprises, by governments, and by foreign countries?

Consumer Demand

Consumer expenditures depend upon the amount of consumer income, and also upon the amount of reserve spending power consumers hold in the form of cash, savings bonds and bank deposits—their "liquid assets." Spending for consumer goods is currently at a very high level in line with the peak rate of consumer disposable income. It is running at the rate of about 90% of disposable income, which was considered to be a normal ratio in pre-war years. There are good reasons for believing that consumer expenditure will not fall much during 1948, if employment and income does not decline. There are still very large wants and needs for durable goods of nearly all kinds, particularly homes, house furnishings, home appliances, automobiles, and household equipment. As rates of supply of many of these goods expand, sales may be expected to increase. Consumers will probably be disposed to spend on consumption a larger fraction of their current income than formerly. They are holding about 3½ times the amount of liquid assets they held in 1940, although their consumption outlays are only about twice as large. With larger reserves to meet emergencies, they will be less cautious spenders.

Another reason why no large fall in consumer spending may be expected in 1948 is that the Federal Government is holding in reserve an anti-depression weapon of very large calibre which it will use if there are clear indications of general business recession. I refer to income tax reduction. At present, the Federal Government is operating with a surplus in the conventional budget at an annual rate of about $7.5 billions. Consolidating the financial operations of government and putting them on a cash basis, the surplus of cash inflow from the public over outgo is running at the rate of more than $10 billion per annum. Federal finance is now exerting a heavy deflationary influence on the economy, with very salutary effects. President Truman fortunately prevailed against the strong Congressional movements for tax reduction at the beginning and again at the middle of this year. Events have proved him to be right in saying that tax reduction would be premature. Had taxes been cut in 1947 most of the benefits to consumers would have evaporated in still more rapid inflation. The time to cut taxes is when additional spending will call forth more goods, and not merely higher prices. That time has not yet come, although it may come during 1948.

One important category of consumer expenditure is for new homes. Any way one measures it, the desire for more housing is intense. We know, for example, that two or three million American families are doubled up with relatives or living in temporary quarters. Since 1941, the real income per family has increased about 35%, which alone creates strong demand for larger and more modern housing. Add to this the fact that since 1941 the total number of houses built has been only about half of the number of additional family units added to our population. The real question has been whether the intense desires for housing would be inhibited by skyrocketing construction costs. The volume of home building was disappointingly low last spring and gave color to the view that a "buyer's strike" was in the making. But a strong revival in home building took place during the summer, which continues. People are building despite apparently high costs. Possibly our indexes of construction costs are not accurate and the contract prices of new homes are lower than the figures indicate. The changes are that residential construction will continue to expany slowly through 1948. This element of demand will be a plus factor in comparing next year with this one.

Business Spending

Very large demands by business enterprises for new plant and equipment and for inventories have been important factors in creating and sustaining the present boom. During 1946 and the first half of 1947 businesses added billions of dollars to their inventories. In the latter half of this year inventory-building has subsided in response to a feeling of caution about the future of prices. Judged by prewar relationships and allowing for the effects of higher prices, business inventories are not high at the present time. Indeed, business would have to hold an additional $10 billion of inventory to restore the ratio of inventory to sales that obtained in 1939. It is probable that inventory building will not contribute to economic expansion in 1948 as it did in 1947. In the event of a recession in 1948, neither will inventory depletion be an important force of contraction in employment and production, as it was during the sharp recession of 1920-21.

Business spending on new plant and equipment has been running at the phenomenal rate of about $4 billion per quarter. This type of spending is governed by the estimated size of the future market for goods and services and by the prospective rate of profit. It has been notably mercurial in its behavior. The chances are that the rate of expenditure on new plant and equipment will not increase further in 1948, except in certain lines such as iron and steel and public utilities. It may decline moderately in the aggregate because profits in many manufacturing and trading lines will be smaller as competition becomes keener and more pervasive. On the other hand, a sharp decline in property outlays seems unlikely. The nation is now employing about 10,000,000 more men and women in industry than it did in 1940. Each of these workers requires a complement of plant and equipment in order to work most efficiently. The ratio of efficient capital investment per worker is still much below that of 1940. Meanwhile, technological progress has opened up new methods for mechanizing production. Management is eager to substitute machinery for human hands wherever possible, because of ever-mounting labor costs. There is no reason for fearing a sudden collapse of business investment.

Government Spending

It is almost certain that Federal fiscal policy will take a less deflationary turn during 1948. On the one hand, Marshall Plan aid to Europe and expansion in public works construction will increase the level of Federal expenditure. On the other hand, there is a strong probability that a reduction in income tax rates will be made during the course of the year. The amount and the timing of tax reduction in an election year will inevitably be decided with reference to its political as well as to its economic consequences. The probabilities are that taxes will be cut sooner, and by larger amounts, than will best serve the interests of price stability. In any event, the level of business in 1948 will probably be supported better by Federal fiscal policy than it has been this year.

Spending by Foreign Countries

In retrospect it can be seen that one of the most powerful factors behind the present boom has been the enormous net surplus of exports from this country. This reached a postwar peak annual rate of about $10 billion during the second quarter of 1947, as other countries with great wants and large accumulated dollar balances purchased heavily in this country. Their actions placed additional spending power in the economy whilst removing goods from domestic markets and had highly inflationary consequences. Never has there been a time when an export surplus was less needed and wanted by the United States. The notion—nurtured by some British and Continental economists—that large exports are needed to protect the American economy from depression like an international WPA is pure fallacy.

The rate of export supply has been declining steadily since last May. The effect of Marshall Plan aid will be to keep this rate from declining as rapidly as it otherwise would. In this sense, the Marshall Plan is anti-deflationary instead of inflationary. It is probable that Congress will vote the emergency relief of about $1.1 billion to tide Western Europe over the winter. It is doubtful whether the full $8 billion for reconstruction and development asked for by the Paris Conference will be extended. Probably between $5 and $6 billion will be voted, because this smaller amount will suffice if the other conditions necessary for European recovery are present.

The two factors that would do most to get the economies of Europe off dead center and on the road to recovery are, first, internal stabilization of their finances and, second, lifting of the "Iron Curtain" that now cuts across the normal flow of commerce between agrarian Eastern Europe and industrial Western Europe. Neither of these conditions can be satisfied by American exports. If France, Italy and other countries would balance their budgets and stabilize their currencies so that their own peoples had confidence in them, the need for American dollars would be greatly reduced. Then farmers would produce and deliver to the cities produce they are now hoarding or failing to produce, because they can obtain in exchange only depreciating paper that can be spent in black markets. Then capitalists would come forth with gold and dollar assets they are now concealing and invest them in productive

equipment. If Russia can be induced to join with the other three occupying powers in treating Germany as an economic unit and to lift the Iron Curtain, then the food problem of Western Europe and the needs of Eastern Europe for manufactured goods would be far less urgent.

Europe needs extensive help from America to rebuild her shattered economy. It is in our national interest to provide this aid. But economic aid should not be viewed as a substitute for pressing Russia and other European nations to make the political and economic decisions that alone will make our aid effective and economically useful. Europe needs tough-minded diplomacy as well as exports from America.

Summary

Let us now summarize the probabilities regarding the business outlook in 1948. It has been shown that at least two forces that have given strength to the present boom have passed the peak of their influence, notably inventory accumulation and the net export surplus. Consumer spending and business spending will probably do no better than to be sustained at present rates and they may decline moderately in 1948. On the other hand, we may expect further expansion on spending for residential construction, and Federal fiscal policy will be less deflationary than it now is. Farm prices are likely to come down after the beginning of next year when sales can be made by farmers without adding to their present high 1947 income taxes. On balance, a moderate recession in the general level of prices with an accompanying easing off of employment and national income appears probable.

Of course, these evaluations of the probabilities may be wrong. It is possible that a combination of events may prolong the boom, produce further price inflation and put off for another six months or more the inescapable price readjustment. It is possible that an inflationary psychology may develop that would lead to a scramble for inventories by consumers and businesses. It is possible that the great labor unions may successfully press for a third round of general wage increases. It is possible that higher costs of construction may cause residential construction to collapse. I am inclined to discount these possibilities. Congress is now belatedly aware of the evil consequences of price inflation. (It will be recalled that the last time it developed this awareness, in 1936 and 1937, business recession soon appeared!) Labor unions have seen most of the increased wages of the past two years evaporate in higher living costs. Businessmen are going to watch inventories closely. Finally, it is not too much to hope that experience of the past several years has taught us the need of coordinated and concerted policies to fight inflation on the monetary and fiscal fronts as well as through price and rationing controls.

I wish to close with some observations on monetary conditions. At last, efforts are going to be made to prevent credit expansion from adding to money demand. The Federal Reserve authorities have taken several mild and tentative steps to tighten the money markets during the past year. It is likely that they will take further and more powerful measures in the near future. The recent expansion of credit has been of large dimensions. Since August of 1946, outstanding commercial loans have risen about 40% and consumer credit about 35%. Through these two channels alone about $3.8 billion have been added to the spending power of the public. President Truman has asked Congress to renew the powers of the Federal Reserve system to control consumer credit. The System may raise the legal reserve requirements of member banks for the purpose of reducing their potential lending powers. It may also initiate further sales of Federal securities by the Federal Reserve banks to mop up cash balances.

Higher money rates have been in the making for more than a year, as a result of the deflationary budget position of the Treasury and the active demand for credit by business and consumers. Following the historic pattern, the first impact of tighter money was felt in the short-term loan markets. Within the past three months higher yields on long-term high-grade obligations have emerged. It seems likely that we have witnessed only the beginning of a movement of money rates toward a higher structure and that 1948 will see a continuation of current tendencies. Rates on business loans will increase and finance companies may look forward to firming borrowing rates. In the current situation this must be viewed as a desirable development. It would not be conducive to the continued health and stability of the American economy to have virtually everything in short supply excepting the supply of money.

Probabilities of a Recession

(Continued from page 11)

tween demand and supply. When demand exceeds supply, business is good, and either prices tend to rise or production to increase; sometimes both at once. In an economic sense, demand is not just the desire people may have for goods and services. It is taken for granted that while people may at times cease wanting certain specific items, their wants as a whole have never been satisfied. Economic demand, as a whole, is rather the number of dollars people have to spend. A rough measure of the dollars being spent in the country is the figure known as the national income. We then may put down as our first concept, demand equals national income.

Now, in both World Wars, demand (and national income) was greatly increased by government spending. If the government had spent only money it took from the public in the form of taxes or otherwise, there would have been no net increase in demand, because the public would have lost just as much purchasing power as the government gained. But this was not the case. The government spent much more money than it took from the people. It got this money, directly or indirectly, from the banking system. At the same time, the banks increased their loans and investments of a private nature. This double expansion — government deficit-spending and expansion of bank loans and investments to the private sector of the economy —was what increased demand, brought full employment, and induced higher prices in both wars.

Deflationary Trends

It follows that if, after a war, government reverses its fiscal policy and spends less than it receives, there will be deflation of prices and probably a recession, unless bank credit expands at the same time enough to balance the reduction of demand caused by government policy.

In the last quarter of 1919, after World War I, government began to spend less than it received, and in the first half of 1920 there was a Treasury surplus. This was of course a deflationary influence. Bank loans to private business stopped expanding in the middle of 1920, and soon began to contract. The inevitable result was the recession which ensued.

In 1946, as in 1919, the government stopped adding to the number of dollars in the hands of the public, and during the first half of 1947 it took from the people about $7 billion more than it spent. So far, the parallel with 1920 is reasonably close. But bank credit shows a different picture. Bank loans and investments in private securities **increased** about $7.5 billion between June, 1946, and June, 1947. This slightly more than cancelled the deflationary influence of the government's fiscal operations. If bank loans had fallen in 1947 as they did in 1920, we should probably be enjoying our recession at this moment.

The Supply

By this time some of you may be thinking that I have forgotten all about the supply. It is the actual production of goods and services that makes us richer or poorer, not the number of dollars in our pockets. It is the relationship between demand and supply that accounts for rising and falling prices, not the amount of demand alone. So let us pause a minute to check up on production. In World War I, industrial production grew relatively little. Even at its peak, which came in 1919, it was only 19% above 1914, a depression year. But in World War II industrial production more than doubled, and though it is now lower than in 1944, it is running about 85% above pre-war. Agricultural output grew much less last time than this. The difference in production would have meant that we should not have had so much inflation, after the recent war except for the fact that government-financed demand also increased much more in World II than in World War I. This time government spending accounted for about half the national income during the war, while last time it accounted for only a quarter, at the peak. The relationship between demand and supply is therefore just about the same in both wars—as is shown now by the substantial equivalence between present prices and those of 1920.

The basic task of prediction, as I see it, is, on the demand side, to guess what is going to happen to government spending and taxation, and to private bank loans and investments. If Europe had recovered, there would be in prospect a decrease of government spending in the form of loans and relief. With the emergency relief this winter and the Marshall Plan, these items are likely to remain about as large as they have been in the past two years, though probably little, if any larger. There is therefore no immediate prospect of a drop in agricultural prices such as occurred in 1920. I should not expect much further decrease of government spending at home, especially if we remember the construction programs of State and local governments. If tax receipts remain at about their present level, government fiscal policy is therefore likely to continue to curb inflation about as much as it has done this year. You can guess as well as I whether Congress is going to reduce 1948 taxes. If it does, the effect will tend to sustain present demand or even to increase it, and therefore to prolong inflation, other things being equal.

Bank Loans and Investments

What about bank loans and investments? In 1919 and 1920 the banking situation differed fundamentally from that of today. Loans had been extended mainly to finance speculation, and especially for speculative increase of business inventories. This time the stock market has not recently experienced an inflationary boom, and apparently business has exercised more caution in building up excessive stocks of goods. A collapse of credit is therefore not so likely to arise from this source. In 1920 the banks had to restrict credit, whether they wanted to or not, because reserves became insufficient. The reserve ratio fell to the legal minimum, and in some districts even below it. Now the banks have ample reserves and can go on expanding their loans and investments for some time to come, if the demand for them continues to grow.

In discussing the future of bank loans and investments, it must be remembered that this is not a matter which is entirely in the hands of the banks themselves. They can do something to restrict the expansion of loans if they want to—though perhaps not so much as those of us who may have had difficulty in borrowing money may think. But banks can do little to expand credit at a time when the demand for loans on the part of those who are good credit risks falls off. Money is not used in production and trade just because it happens to be available. We must therefore make a guess at the future demand for bank loans.

On account of the large unsatisfied wants for houses and automobiles, many predict that loans for these purposes will continue to grow for several years longer. Other consumer credit may increase if installment sales in general expand. Business, many believe, is not likely in the near future to need so much bank money as recently to build up inventories or expand production. Nevertheless, there is a factor affecting all these matters which is very different now from the situation immediately after the former war. That war did not involve the accumulation of such large backlogs of demand for durable goods as did the recent one. American participation was shorter—only 18 months. Automobiles were not so widely owned; their output had been curtailed only in one-quarter of one year—and then only to 25% of normal. Radios were not yet on the market, and there had been much less use of household electrical equipment. Such backlogs played almost no part in the 1920 boom. It was to a far greater degree speculative than the present one. The natural inference is that the present one may last longer.

What About Consumer Demand?

One major factor remains to be considered — the effect of prices and incomes on consumer demand. The moment consumer demand, which is by far the largest element in the stream of income, begins to fall persistently, business will quickly curtail output, money in circulation will shrink, unemployment will grow and the vicious circle of recession will be upon us.

It is widely believed that the depression beginning in 1920 was caused by a buyers' strike against the high cost of living. The statistics indicate no actual buyers' strike, since consumers not only spent more dollars in 1920 than in 1919, but actually bought more goods in quantity. What did happen, however, was that in 1920 high prices prevented consumers from buying all that was being produced. Increased output showed up in unsold inventories rather than insufficiently enlarged sales to consumers.

If this sort of thing happens again, we can have a depression much more quickly than otherwise, and it is likely to involve a sharper price readjustment. It does not necessarily follow, for instance, that just because a lot of people still want automobiles and houses, they will go on buying them, no matter what prices they have to pay, if necessary borrowing the money to do so. Without going into the detailed figures, it is pretty clear that a great many have already been "priced out of the market" in numerous fields, and a continuance of this tendency could quickly lead to restriction of output and consequently of employment and demand. The Midyear Economic Report of the President, issued last July, called attention to the fact that the disposable income of the consumer had been falling behind prices ever since the middle of 1946. Out of this income consumers are saving a far smaller percentage than during the war, and the rate of saving has fallen almost to the pre-war figure. Consumers at the lower income levels have been cutting in on the savings they had already laid up, and many of them have now exhausted this resource of purchasing power.

Unless prices soon begin to retreat pretty generally, consumer demand, which makes up about 70% of the total national income, will probably shrink. The consequence will be a lessening of demand all along the line—for of course under these conditions the use of bank credit would decline. With both government and banks withdrawing purchasing power, the recession would be here.

A Prediction

I have now arrived at the point where you will expect me to go out on a limb with a definite prediction. Instead of doing that, I beg your indulgence for a number of conditional statements.

If business should reduce prices as increased productivity and profits permit, and food prices are brought down, we might avoid a recession for a year or two, and any which came would be correspondingly milder and more quickly over.

If prices rise even higher, there is likely to be a sharp recession in the near future.

A favorable factor which did not exist at the end of World War I is the fact that world demand for American food is likely to continue longer, and exports of this and other American products may be large as long as the United States Government finances them. Another favorable element for the time-being is the larger backlog of domestic demand, coupled with the fact that bank reserves are ample. Also, insofar as speculation in inventories may be avoided, we are in less danger now than in 1920. We probably lost the opportunity to prevent a post-war depression entirely when we abandoned war controls too quickly and let inflationary forces loose, but we still have an opportunity to moderate it by holding prices down as much as possible.

What we have to fear most of all is another 1929 after the United States stops financing exports on a large scale and the domestic backlogs are filled. But consideration of this danger probably takes us beyond the immediate future.

For the present, anyone who wants to make his own forecast should watch two main factors—the government surplus, and the course of bank loans and private investments. The larger the government surplus, the more downward pressure will be exerted by government against prices. The increase of bank credit and investments works in the opposite direction. One of these factors may for a time counterbalance the other. If both start to exert upward or downward pressure, look out for inflation or deflation, as the case may be.

The forecaster will of course also remember that large physical output is a favorable sign, provided consumers are buying the product. And he will run for the bomb shelter if the volume of consumer purchases—not in one or a few lines only—but in the total, shows a steady downward trend.

The Outlook for the Railroads

(Continued from page 12)

roads be kept on this 2% return basis.

Now, why is that strange situation existing as to rates, on an industry that is, as my friend, Captain Holmes here will also tell you, more important to our national defense than the Army and the Navy?

Well, I can give you several reasons. One reason is that the same government bureau which fixed these atrocious reorganization plans and fixed that ridiculous capitalization for the Rock Island is the one which fixes the rates; so that, having fixed $310,000,000 as being a fair capital of the Rock Island for the last 15 years, they have been fixing rates to make that capitalization be all that the Rock Island can afford. That's one reason.

The second reason is that, as you all know, any politician in Washington is interested only in getting votes. So the national defense and some 75 million investors and insurance policy holders have got to become secondary. So that they are glad to take the testimony of these farmers and these shippers throughout the country against a rate adjustment for the railroads because those fellows vote and are vocal, and the poor railroad security holder is only represented by a lot of security analysts and customers' men; and who in Washington is interested in one of those?

Composition of Railroad Directorships

Now, a third reason why this dreadful rate situation exists which endangers our personal safety is that the boards of these railroads are made up of shipping interests and while Mr. X and Mr. Y [names omitted by Editor] and others may pay lip-service to rate increases, they may put on a big show before the Interstate Commerce Commission, and then they go in behind the scenes and sit down with a Commissioner who says "Well, so and so [name omitted by Editor], just how anxious are you for this rate increase?" And they say "Oh, what difference does it make? It just comes out of the poor railroad security holder." After all, look at my Board of Directors here. They are big shippers," — Mr. Z [name omitted by Editor] right now, although he only earns 40% on his capital is now running a big campaign all over the country against railroad rate increases.

So, now, I should say that if you gentlemen or if I had done to the Rock Island what the insurance companies, the Interstate Commerce Commission and the Supreme Court have done, we'd all be in jail. Because, the Rock Island sold $30,000,000 of convertible bonds—not in 1915 or '25 or '29, but in 1930—they sold these convertible bonds at par to investors who dug up the good old hard cash to buy them, and those bonds were endorsed by the bankers. They were approved by the Commission as being in the public interest, and just two or three years later those Rock Island bonds were wiped out, as being excess. The railroads were overbuilt; we didn't need them any more; they were obsolete.

Insurance Companies Blamed

Now I'm not surprised at a political body going in for that kind of stuff, but I am surprised at the insurance companies, because, after all, they are supposed to represent the insurance policyholders of the country, and if they are going to submit voluntarily to court procedure which takes $400,000,000 of property of the Rock Island, together with $80,000,000 of cash and $65,000,000 in equipment; if they are going to submit voluntarily to that valuation being wiped down to an approved capitalization by the Commission of $310,000,000, as they have done; if they are going to do that in this first depression, what is going to happen in the next depression? You have only got to have such a principle exercised through two depressions, until you have wiped out the capitalistic system.

Now, perhaps it wasn't so bad either for the Interstate Commerce Commission or the insurance companies or the Supreme Court to fix that capitalization for the Rock Island back in 1935, when we were all pretty gloomy. But the unconscionable thing was that even yesterday, even last week, the insurance companies and their lawyers were down in Chicago, backing up the principle that $80,000,000 of cash and $65,000,000 in equipment and $400,000,000 of rails and stations were only worth $310,000,000. That, I cannot understand, except on the basis that they were so interested in the new board of directors of the Rock Island that they were willing to sacrifice a few hundred million dollars to get that board of directors. Nothing else makes any sense.

Poor Railroad Services

Now that same strangeness and mystery existed regarding through-service. You know that in the Pullman hearings in Philadelphia, two years ago this time, Mr. Franklin of the Pennsylvania and the President of the Atchison got on the stand and testified that through-passenger service wouldn't pay; that the — and this is under oath — that the public didn't want through service; that passengers, when they got to Chicago, preferred to get off and go to a hotel to clean up, the trains were so dirty.

Now, what happened? When through trains were established—and it's the rottenest service in the world because they still jerk them around out there in the yards, to discourage them—within the first week you couldn't get a reservation on that train for six months, and I have been advised by the Pullman Company that the most profitable runs they have are those cars; that those cars are making $50,000 a year, which isn't a bad return for a Pullman car which was written off eight or ten years ago, and stands on their books valued at nothing.

Well, that was mysterious and strange. I have tried to reconcile that one. The only way I can reconcile that one is that the air lines may have more influence with Mr. Clement and Mr. Gurley, than their stockholders.

Now, one of these things wouldn't disturb me very much, but when they pile up in a series, why then they begin to make me wonder; maybe I'm right. So in that Pullman proceeding we turned in a firm commitment to subscribe $75,000,000 for new equipment, and we said, in our application to the Commission and to the Supreme Court, that we had $500,000,000 ready to put up to replace every Pullman car in the country. And do you know that Mr. Gurley and Mr. Clement and Mr. Metzman came down, all the way to Washington, to help us save our money? They said, "It's a bad risk. You shouldn't do it. You'll lose your money, and we cannot allow you to do it." They brought all the lawyers of the Association of American Railroads — 135 railroads — down to keep us from losing our money, furnishing them new equipment. And do you know that the entire Interstate Commerce Commission backed the railroads up, and our Supreme Court backed the railroads up, and today the public is riding around in junk, and they're going to ride in junk for the next five to ten years because Mr. Gurley and Mr. Clement didn't want me to lose my money. Well, I'm very appreciative of that!

Inadequate Passenger Equipment

Since the war, or since V-J Day, there have been 2,000 passenger cars ordered, of which 1,000 are Pullmans. In the last year there have been 112 passenger cars ordered. A month ago I went to Palm Beach to repair some hurricane damage, and the local passenger agent of the Florida East Coast came in to pay his respects and say that he didn't know how in the world they are going to take care of traffic to Florida this winter because he'd just been up to Chicago to see the new railroad —Pullman Company—to see what he could do for some bedroom cars and they told him there's only 26 bedroom cars in the country to take care of 133 railroads, and that they also told him that the Pullman Company was then furnishing only one car in three for requisitions which were coming in to them.

Now, I do know that Mr. Bowman is worried how he can open Greenbrier Hotel next March, and I do know that we are turning people down every day who want to go to Hot Springs, because we do not have sleeping cars; yet, only 112 passenger cars of all kinds were ordered in the last 12 months.

Now, again, the only thing I can reconcile that with is that there is greater interest in the air lines than there is in the railroads.

The Work of Wall Street

Now, there's two things that I want to make very clear, and one of those things is that I also have thought, and I still think, that the most important streets in the world are those few historic blocks between Trinity Church and the East River. There is the last citadel of private enterprise. It is rendering the nation a great economic service, for a very inadequate reward. They are just about down to the railroad level when it comes to rate of return.

I'm proud of Wall Street, and Wall Street is a great and honorable community, and that applies to all its branches all over the country, and when Wall Street goes, so goes the Statue of Liberty, and every thing I owe to Wall Street, because God knows I haven't lived in the last 20 years on my salary, net after taxes. I have lived simply because I am, like you gentlemen, a securities analyst, and I'm keenly interested in the railroads because they are a "natural" for a railroad analyst.

The figures of railroad operations come out every month. You can see the property. You can measure, see how much cash they have, what the revenues are; and when that industry—which used to make up most of the trading on the New York Stock Exchange—when that industry sits back as it did, under insurance company influence, and allows these railroad reorganization plans to go through, without protest, then I think they were not exercising their obligation to the nation as a whole, to protect the investor. I think they were misled by a few and I think those few have wreaked something from which the capitalistic system may never recover from.

Railroads Need Living Wage

Two weeks ago I was down with an Interstate Commerce Commissioner, discussing railway express on less than carload lots and this Commissioner said, "Mr. Young, this railroad situation is a dreadful condition." He said, "I just don't know what we are going to do about it."

We have been trying to tell him that for three and a half years. If you give them a living wage, there's a lot you can do about it. But he said, "Let's just take the passenger business. The trains on the New York Central are not returning their out-of-pocket by 35%." "Well," I said, "Mr. Commissioner, we were down here last year to offer you new equipment; and every place you turn, where there is new equipment, those passenger trains not only return their out-of-pocket, but they return a big profit. The most profitable train in the world is the one between 'Frisco and Los Angeles, the Southern Pacific day train, which nets, or grosses, $8 a mile, and costs $4 a mile. Every new train that's gone on—and that's true also of the New York Central, the Pennsylvania, the Illinois Central, the Pere Marquette, Seaboard and Florida East Coast—every one of those trains has, within a few years, paid back its cost in increased revenues."

So I said to the Commissioner, "Well, Mr. Commissioner, if you had taken our $500 million you'd have cured that situation." "Well," he said, "I'm dreadfully disturbed about the New York Central because the cost of labor is such at these terminals that the New York Central can't possibly live." I said, "Well, Mr. Commissioner, that's why we are down here with an application to acquire control of it. But I suppose," I said, "that you're going to turn us down. You're going to debate over it for six months and turn us down," and I reminded him that the interlocking application of Mr. Hagerty of the Metropolitan Life to sit on the New Haven Board as well as on the Erie had been approved without a hearing, while our New York Central hearing was still going on. I said, "You'll put a banker on there—let him interlock—but a fellow like Bob Bowman, who knows what New York Central needs, you make us bring 50 lawyers down, after which you incubate on it for six months and then you turn us down." I said, "If you gentlemen will give me the New York Central, and then if you will give me the Rock Island, and the Southern Pacific, and the Seaboard, I'll show you a cost of transportation that will amaze you and will make these railroads a gold mine, even on present rates, and you can make the farmer happy and everybody happy. The only persons that will not be happy will be the presidents of these railroads, who will have to give up a job."

I said, "If the trouble with the New York Central is the fact that it's got too heavy a terminal expense, the obvious answer is to put it with a railroad that can give it a long haul. Now, if you'll give me the Rock Island and the Southern Pacific and the Seaboard and the Central, I'll give you a long haul."

Now I haven't covered Alleghany Corporation or Nickel Plate or the Greenbrier and a lot of other things, but to continue.

Alleghany Corporation

When we came into Alleghany Corporation in 1937 it had $80 million of debt, and didn't have even the cash to pay its payroll because it was all tied up in the Guaranty Trust Company under an indenture, and they didn't like me so they wouldn't give us any money for the payroll.

Incidentally, they didn't like me because in this same investigation I reminded President Truman—he asked me what I was going to do with railroad finance, and I said, "Open it up to competition"; and Mr. Lamont had one of his men down there and I was called down to his office next day, and that's when I began to have trouble with the Guaranty Trust Company.

Now, I'm not for competitive bidding. I'm against competitive bidding, but there is something else that I'm more against, and that's the reason we have competitive bidding.

I am more against a banker sitting on a board of directors of a company and selling bonds to himself, and that is why you have competitive bidding. It was because the House of Morgan wanted to sit on the board of the C & O and sell bonds to itself, and the first time we had a clash on that, they came out and bid 95½ for $30 million of Chesapeake & Ohio bonds, when I had a sealed bid in my pocket for 100 for the same bonds, or a difference of 4½ points or $1,350,000, and that's why I'm for competitive bidding, if bankers insist on sitting on boards and dealing with themselves, because I don't think you can get a fair price under those circumstances.

They tried to get into the Erie and tried it in Cincinnati Union Terminal; they tried it in the St. Louis Union Terminal, and every time they tried it on me they got licked, and every time they made evidence for the SEC and the ICC, and that's why you have competitive bidding rulings today; not because of me, but because of them.

Now, Allegehany Corporation has paid off all of that $80 million of debt, a good part of it at a premium. Of its prior preferred stock, it has purchased 29,000 shares out of 100,000 and retired it. Out of its 660,000 shares of Series A preferred, it has purchased 102,000 and retired that; not only gotten rid of $100 of capital item, but it also got rid of about $80 per share in back dividends, and today Allegehany Corporation has some bank loans of about $24 million and has cash against that of about $13 million or a net debt of about $11 million.

Allegehany cannot pay dividends because it still has a deficit, and for that reason we are using the corporation's earnings to reduce its capital. The prior preferred stock is convertible into common at 5 and there's back dividends on it of about $30 a share and we hope one day, perhaps, to pay off those dividends in cash and then to see that stock converted into common, if we ever get the kind of rail market to which we are entitled.

I want to again say that I think we are about to enter a great, new era in railroads, because the chief incentive which the insurance companies' management of these railroads and the Interstate Commerce Commission have had to keep rates down is now behind us, now that they have got the Rock Island safely into the fold. So they won't be as interested now in keeping rates down.

So I look for better rate treatment for the railroads and I expect to see the railroads enter a great new era, when trading in railroad securities on the New York Stock Exchange will again be an important feature.

Greenbrier Hotel

We heaved a sigh of relief when the government came to us at the beginning of the war and said "We want to buy it for a hospital," and we sold it to them for $3 million and realized a loss which tax-wise gave us a net return of about $6 million, and we were thankful to be out of the hotel business.

But at the end of the war the pressure on the C & O was so great from its operators and from the government of West Virginia that it was compelled to take the hotel back, rather than see it pass into other hands, and it was reacquired.

It is being refinished on a very expensive basis, as anything is that's done these days, and we hope to see it the finest resort hotel in the world. But the return it will show to the C & O will be mostly indirect, in that we will have something to offer there to coal operators and others along

the line which the Virginian and the Norfolk & Western can't offer. So, it may look like an expensive operation in some respects, but I think, on balance, in view of the fact that every railroad is more or less a public institution, as far as certain aspects of its service are concerned, I think we just have to look upon that as part of the C & O service, just like its dining-car service.

The Seaboard Air Line

Let me tell you about Seaboard. It's a situation very much like the Rock Island, and I think, even today it has $60 million of cash, and the market value of its bonds is probably less than the value of its cash and equipment. So that when you buy into that situation, you're buying the railroad for nothing.

Our analysis shows there are three or four outstandingly cheap railroads in the country, and most of them are in the reorganized field. Seaboard and Rock Island and Missouri Pacific, and a few others—Florida East Coast, comparatively cheaper now than Pennsylvania, Central and Nickel Plate, and other eastern railroads, which even so are very cheap now.

The Seaboard, if it weren't, again, in one of these non-stockholder managements, I would be very enthusiastic about, but there is a voting trusteeship there, and the stockholders have no interest.

I talked with the President of the Seaboard within the last six months to try to persuade him to take some of that $60,000,000 and buy up those 4½% income bonds selling at 62; those income bonds of the Seaboard are a far better bond than any—than most—bonds, railroad bonds, on the New York Stock Exchange selling in the 90's and 100's, both as to earnings and as to security, they constitute a first mortgage, virtually, of the Seaboard. Yet the management, even in the railroad panic we had last fall, a year ago I couldn't persuade that management to go in and buy those bonds. Now, I think that was just injuring the stockholders, and the only reason I can see is that—well, I just don't know. I don't know whether those voting trustees have the money in some bank, or what. I just don't know. I can't' understand it.

Another thing he was doing—which a road as rich as the C & O can't afford—he was paying 100% cash for his equipment. Well, now, you gentlemen know, you can finance equipment for 2%, so why pay 7%, 8% or 9% on your 4½% income bonds, and take cash and buy equipment for that, when you can finance it at 2%? It just didn't appeal to me, as an analyst.

But it appealed to those fellows, and that's why I don't think we ought to have voting trusts, and that's why I think when the insurance companies, and when you gentlemen, allowed those insurance companies to set up voting trusts, I think you were injuring our system of private enterprise, and as much as I love Wall Street, I love private enterprise more.

Martin S. Stout With Maxwell, Marshall

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Martin S. Stout has become connected with Maxwell, Marshall & Co., 647 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with First California Company.

E. T. Reel Opens

(Special to THE FINANCIAL CHRONICLE)

LAMAR, COLO. — Eugene T. Reel is engaging in a securities business from offices at 111 West Olive Street. He was previously with Garrett-Bromfield & Co.

The State of Trade and Industry

(Continued from page 5)

forced to clear their books of all promised tonnages which cannot be delivered before Jan. 1.

Some segments of the automotive industry are claiming that many of their parts-makers are not receiving enough steel with the result that auto firms in some case are being forced to supply steel to their parts-makers. On the other hand, other steel consuming groups are squawking about auto firms getting too much steel.

The general boycotting of high scrap quotation by consumers has driven prices down at Pittsburgh where the average price of No 1 heavy melting this week has declined $2.50 a ton. At Philadelphia where demand is still strong the average price of heavy melting steel is up 50c a ton, while the important Chicago district reflects no change. "The Iron Age" steel scrap price composite is off 67c a gross ton this week and now stands at $40.58 per gross ton.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 96.3% of capacity for the week beginning Nov. 24, 1947. This compares with 97% one week ago, 97% one month ago and 62.8% one year ago. Current operations represent a decrease of 0.7 point or 0.7% from the preceding week.

The week's operating rate is equivalent to 1,685,000 tons of steel ingots and castings compared to 1,697,400 tons last week and also a month ago and 1,106,800 tons one year ago.

RAILROAD FREIGHT LOADINGS CONTINUE SEASONAL DECLINE FOR LATEST WEEK

Loadings for the latest week Nov. 15, 1947, totaled 878,337 cars, according to the Association of American Railroads. This was a decrease of 31,823 cars below the preceding week due to the seasonal decline in freight traffic and observance of Armistice Day. They also represented a decrease of 38,787 cars, or 4.2% below the corresponding week in 1946, but an increase of 77,803 cars, or 9.7% above the same week in 1945.

ELECTRIC OUTPUT AGAIN HITS NEW ALL-TIME HIGH

The amount of electrical energy distributed by the electric light and power industry for the week ended Nov. 22, 1947 was 5,180,496,000 kwh., a new all-time record figure, according to the Edison Electric Institute. This compares with the previous high of 5,084,340,000 kwh., reached in the preceding week, and was 8.7% in excess of the 4,764,718,000 kwh., produced in the corresponding week of last year.

AUTOMOTIVE PRODUCTION ESTABLISHES NEW POSTWAR HIGH

The automotive industry last week attained a new postwar high point in production by turning out 111,228 cars and trucks in the United States and Canadian plants. This surpassed the previous week's record output of 110,663 units, according to "Ward's Automotive Reports."

Included in the total for last week were 82,029 passenger cars and 24,269 trucks made in this country and 3,885 cars and 1,054 built in Canada. In the comparable week last year 96,454 units were produced, while in the corresponding 1941 week 80,820 were completed.

Cumulative figures show 4,472,548 units produced in the year to date, of which 3,127,311 cars and 1,112,524 trucks were built in the United States, and 147,990 cars and 84,723 trucks were made in Canada.

If the present pace of more than 22,000 daily continues for the remaining 26 working days in the year, stated "Ward's" the total should easily pass 5,000,000.

BUSINESS FAILURES TURN SLIGHTLY LOWER

Following a two-week increase, commercial and industrial failures declined a little in the week ending Nov. 20, reports Dun & Bradstreet, Inc. Concerns failing numbered 79, against 84 one week ago, but over three times as many as the 24 in the comparable week of 1946. They also exceeded the total registered for the corresponding week of any year since 1942.

The week's slight downturn appeared in both large and small failures. Business failing with liabilities of $5,000 or more dipped from 66 last week to 64 this week, about three times the 21 reported in this size group a year ago. Of the 64 larger failures, 10 involved losses of more than $100,000 each, including one enterprise failing for more than a million dollars. Fifteen small concerns went out of business with losses to creditors of less than $5,000; this represented a mild decline from the previous week's total of 18.

While this small liability class accounted for only a fifth of the week's failures, it showed an exceedingly sharp upswing from 1946 when only three small enterprises failed with losses under $5,000.

Retailing and manufacturing continued to have about an equal number of failures, claiming 33, and 30 respectively. In wholesale trade, only six failures were reported, in construction and commercial service only five. The mild decline in failures in the week just ended occurred entirely among manufacturers and among construction concerns.

Geographically, the Pacific States continued to have the most failures. The second largest, occurred in the Middle Atlantic States. All of the week's decline was concentrated in two areas, the East North Central States. In all other districts, business failing in the week just ended either increased or held steady.

FOOD PRICE INDEX REGISTERS FURTHER ADVANCE

The Dun & Bradstreet wholesale food price index showed a further moderate rise last week following the sharp uptrend a week ago, bringing the Nov. 18 figure to $6.95, from $6.89 on Nov. 11. This represents a gain of approximately 1.0% in the week, and is only 2.4% under the all-time high of $7.12 recorded on Sept. 16. The current index compares with $6.49 last year, an increase of 7.1%. The chief function of the index is to show the general trend of food prices at the wholesale level.

DAILY WHOLESALE COMMODITY PRICE INDEX SHOWS STEADY RISE

The wholesale price level continued its slow but steady rise in the past week. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., closed at 293.10 on Nov. 18, only slightly under the post-war peak of 293.56 registered on Oct. 23. The latest figure compares with 289.17 a week ago and with 240.15 on the corresponding date a year ago.

Leading grain markets scored further advances last week although price movements were somewhat irregular and volume of trading in futures continued to decline.

Wheat displayed marked strength aided to a large extent by buying stimulated by continued CCC wheat purchases, and a resumption of government buying of flour, after a lapse of several weeks. Rains were reported over a large part of the Winter wheat belt in the latter part of the week and tended to hold advances in check. Strength in corn reflected active commercial buying prompted by cold weather in mid-Western producing areas which may increase feeding requirements and tend to restrict marketing. Oats advanced aided by government buying, small receipts and reports of heavy farm consumption. Domestic demand for flour continued at a low level with buyers holding aloof pending developments from Washington. Hog prices were steady although receipts continued heavy. Cattle prices strengthened at the close and lard prices moved upward in active trading.

The initial advance in cotton prices which followed the government's unexpectedly low forecast for this year's crop was well maintained during the week with values holding within a comparatively narrow range.

Inquiries were more numerous and volume of sales in the 10 spot markets increased sharply to 342,100 bales for the week, from 313,500 the week preceding, and 120,600 in the like week a year ago. In addition to the low crop estimate, the market was stimulated by heavy rains and frosts in parts of the cotton belt, a strong demand for cotton textiles, and the continued high rate of domestic cotton consumption. According to the New York Cotton Exchange Service Bureau consumption during October rose to approximately 825,000 bales, as compared with 727,000 bales in September, and 931,000 bales in October last year.

Demand for domestic wools in the Boston market remained active but volume was small due to restricted offerings. There was good attendance at the wool auction sale held in Boston on Nov. 13, but bidding and volume of sales were disappointing. In foreign primary markets prices remained firm. Buying in Montevideo was said to have slowed down as a result of recent increases in asking prices on super wools 58s and above in grade.

RETAIL AND WHOLESALE TRADE MODERATELY ABOVE WEEK AND YEAR AGO

The combination of seasonal promotions and generally favorable weather helped to encourage consumer buying the past week. Retail volume rose moderately above that of the preceding week and remained well in excess of that of the corresponding week a year ago, according to Dun & Bradstreet, Inc. in its current survey of trade. Holiday gift buying was considerable and consumers purchased fairly liberally with insistence on quality continuing to be stressed.

A slight increase in the purchasing of food occurred the past week. Dairy products, frozen foods and utility cuts of meat were in very large demand. The supply of fresh vegetables and fruits continued to be plentiful and purchases of poultry and fish proved to be substantial. Housewives increased their purchases of canned goods and sugar with the demand for coffee steady and at a high level. Some increase was reported in the volume of confectionery and bakery products.

Winter clothing attracted very favorable attention last week. The buying of women's coats and suits increased and interest in furs continued to improve.

Lacy lingerie, hosiery and jewelry were in large demand and both men's and women's shoes also sold well. The volume of men's jackets, suits and sweaters too, was substantial with a marked increase in the buying of overcoats. Purchases of men's heavy underwear and gloves held up well.

Consumers sought Christmas gifts of all types with toys, cameras and luggage especially popular. Lamps, small tables and small heaters were in large demand. A spurt in the buying of branded electric irons occurred in many areas with hardware and paints steadily requested. Sporting goods, particularly hunting equipment, were readily purchased in some locales.

Retail volume for the country in the week ended on Wednesday, a week ago, was estimated to be from 11 to 15% above that of a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England 9 to 13, East 10 to 44, South and Middle West 8 to 12, Northwest 11 to 15, Southwest 15 to 20 and Pacific Coast 6 to 10.

There was a moderate rise in wholesale volume last week with retailer buying moderately exceeding that of the corresponding week a year ago. Substantial quantities of most types of merchandise were purchased. Optimism was prevalent among buyers and the supply of some items remained limited but adequate stocks of most goods were available. Deliveries were generally prompt.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 15, 1947, increased by 11%, from the like period of last year. This compared with an increase of 10% in the preceding week. For the four weeks ended Nov. 15, 1947, sales increased by 10% and for the year to date increased by 8%.

Christmas shopping here in New York the past week served to stimulate retail trade to a greater degree and resulted in deparement store sales rising 5 to 10% above the like week of 1946. In wholesale garment centers buying activity reached its peak and statements to the effect of a possible return to price control failed to serve as a deterrent to buying, it was reported.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period to Nov. 15, 1947, increased 10% above the same period last year. This compared with an increase of 5% in the preceding week. For the four weeks ended Nov. 15, 1947, sales increased 18% and for the year to date rose by 10%.

The Progress of Economic Reconversion

(Continued from page 15)

me as arbiter. But I do believe that there is a line of approach and a method of procedure analogous to those we use on the technological or physical side of this problem of production which promises better results than we have had from methods followed since V-J Day.

This approach is in full accord with the American tradition of free enterprise and the business tradition of analytical management and full use of science and engineering techniques. It involves a change in the form of the question asked as the basis of an economic decision. The question ceases to be: What will give my company or my union or my agricultural unit the biggest gain in some relatively short-run period? The question becomes: What course of action by my company, my union, or my agricultural unit will contribute most to the enlargement of national productivity and the putting of this productivity on a sustained basis? When a man or organization puts the question thus there is the unspoken premise: Only by promoting the largest and best sustained national prosperity can I have the best market in which to sell my product, whether goods or labor or technical and managerial talent.

Philosophy of Employment Act of 1946

This is an economic philosophy which I find embodied in the Employment Act of 1946. The "declaration of policy" embodied in Section 2 of this Act states a clear and unequivocal intention to "foster and promote free competitive enterprise." This places initial responsibility upon organized industry, labor, and agriculture themselves to make those internal adjustments of price, wage, profit, business investment, and consumer spending which will provide a maximum number of "useful employment opportunities, including self-employment, for those able, willing, and seeking to work" and the capital equipment whereby their labor is made so efficient that a high employment level results in "maximum production."

But the act also expresses a clear intention of employing public enterprise to promote the objectives of maximum production when or to the extent that private business enterprise finds itself unable or unwilling to make adequate productive use of our labor force and our plant and natural resources. This, too, is traditional American doctrine, although our practice of the doctrine has not yet been sufficiently perfected to have prevented recurrent and sometimes lengthy periods when both human and capital resources ran to waste in large quantities. From the inauguration of the post office and the passage from the local school district to the land grant colleges, we have lived under a "mixed system." We have not been rabid as to ideology but instead have been pragmatists trying to get things done in a land of rich opportunity and an age of expanding opportunity, and to preserve the freedom of action of the citizen as well as the business enterpriser in the process of getting things — large things — done.

Inflation Problem

The particular purpose we are trying to accomplish now is to move from the high productive tempo of war to sustained high production in peacetime. In doing so, we are faced by two difficulties which test our ingenuity and our power of self-control and group discipline—easy money and tight goods. It is rather ironic that we had to win the war with a gigantic public debt because keeping out of debt would have deprived us of the necessary incentive to get maximum production, whereas this burdensome debt now becomes the balloon-like power to make prices soar and cause a boom that threatens to get out of hand. However, there is not, in our present situation, a fixed supply of money which inescapably forces us into an inflation of certain size. There is an inflation potential created by a large monetized debt and other circumstances. It is up to our economic intelligence and our moral integrity to "contain" that inflationary pressure somewhere short of the point of disaster and subsequently to "rectify our lines" and reorganize our economic forces so as to continue to move forward. Many of us will have to accept personal sacrifices if we are to accomplish that end.

Turning from the factor of elastic monetary demand to the accompanying situation of short supply, we must recognize that this tightness was in part relative and in part absolute, in part an inability to expand fast enough and in part an arbitrary curtailment of supplies. The latter situation of course came from unfavorable crop conditions, the former from certain industrial limiting factors that we had not fully realized in advance.

It is no discredit to American industry to say that it has proved unable by the end of 1947 to deliver the fabulous quantities of goods that we had rather debonairly assumed would be available by now. What this means at bottom is that the period of making up the deficiencies in producers' and other civilian goods which had piled up not merely during the war but during the preceding depression was somewhat longer than we had imagined, or at least hoped, that it might be. The railroads had done a phenomenal job of stretching their equipment to meet the heavy drains of war transportation. When, with little time to reequip, they were asked to carry the gigantic peacetime product of 60 million employed workers, it was only natural that the strain upon this hard-worn equipment should have become manifest. The steel industry on its part was not able—nor in the longer run would it have been desirable—to supply immediately all the steel needed for cars and locomotives, all the automobiles that people were clamoring for, and all the refrigerators and other household equipment for which anyone had a need. In these last two years also we have taken the measure of the inadequacy of our scrap iron supply after the attritions of the war period to meet year after year demands of a highly active and prosperous economy.

This limiting fact on the supply side was, as I said, only relative. The total amount of goods has been gigantic, and shortages appeared only because of the magnitude of the demand. In all this, I see cause for encouragement rather than dismay. It has revealed to us the tremendous size of the market to be supplied, year in and year out, under conditions of sustained high employment. It has provided the opportunity for consumers to demonstrate and for producers to measure the size and direction of that demand. This should stimulate and guide our long-run efforts toward supplying it. The fact that there is still so much of a backlog after two years of high production gives our industrialists confidence in their planning for the future, and this confidence is being reflected right along, both in their words and their actions.

But these limitations on the short-run expansibility of a supply of consumer goods, aggravated as it was by numerous work stoppages, has tended to keep some inflationary pressure on in the industrial market and to make it peculiarly susceptible to cost increases coming either from advancing costs of agricultural raw materials or from wage increases that were stimulated by advancing living costs. It is, of course, the much reduced corn crop of this year and the dubious prospect for wheat, and, very likely, other crops in 1948 which has really created and determined the size of our problem of economic readjustment for the coming year and the inevitable consequences of the most awkard situations to which our economic adjustments have to adapt themselves. The unfavorable turn of weather conditions is sure to be of a temporary character, whether one year, two years, or an even longer period. We can thank our lucky stars that bad weather did not hit us right in the midst of the war effort. We can hope too that even if we have bad weather in 1948, other parts of the world will have better conditions. But the immediate fact we have to meet and surmount is that the temporary and relative shortage of food will have a permanent and to some extent cumulative effect on the industrial situation and the whole economy. High meat and other food costs becomes the leverage point for wage increases, and these increases, as we well know, have a very persistent effect on productive costs and the whole price structure.

Decries Laissez Faire Policy

Many people are ready to urge that we leave the whole matter to the bad old "law of supply and demand." It could be counted on to adjust everything in due time if we would just keep our hands off. It would, I suspect, do so by giving us a boom that, feeding on itself, went on till it burst. Then cumulative liquidation and protective restriction of production would bring the pendulum full swing to a depression probably worse than the '30s. To me this seems too crude a procedure for a people of scientific training and business talent. We are feeling our way toward a workable set of price and income adjustments under which we will continue to work and to buy in the market and to save and to invest all in amounts properly related to their complementary needs. But the level at which it stabilizes and the levels of production which we have during that process and afterward depend in significant degree on how we deal with all the component local adjustments.

Under the Employment Act of 1946, the country is now being put to its first test of whether we are capable of taking positive measures to prevent the disastrous swings of boom and depression. We are meeting this test, not under the expected conditions of supporting the economy against a demobilization crisis of unemployment and recession but in the midst of a mounting strain of labor shortage, scarcity of goods, and a price-wage spiral. It is almost self-evident that any attempt to introduce stabilization policy and action meets its most favorable response if launched in a deflationary or depression situation. Everybody is pressed to meet his obligations, apprehensive as to what may happen, eager for some assurance from outside, some promise of security. They find it easy to accept and comply with support measures. But stabilizing measures in a boom are something quite different. They suggest restraints at a time when everyone is confident, ready to take a chance, impatient of anything which seems to chill a prospect of profit. But it is just when confidence outruns prudence that restraints should be introduced from outside, since they cannot be developed from within.

Can We Exercise Restraints?

And so the question is squarely up to us: Can we exercise the restraints upon our individual and group actions that will permit the inflationary potential to be confined within limits that are not disastrous to the economy? It will require the utmost moderation in those places where either goods or services are in short supply and monetary demand is strong. It will require acceptance of the fact that consumers cannot have as much food and as high quality food for the same price or the same percentage of their incomes in years of poor crops that they do in years of bumper crops. The use by any group of its economic power to keep its standard of living position unimpaired in time of physical shortage simply means that they secure their own exemption from deprivation which must be borne by someone. No amount of writing up of incomes will undo the effect of flood, drought, frost and disease. If we do not participate vigorously in the voluntary food conservation program and comply scrupulously with any control measures that our private organizations or our public representatives impose, we shall be allowing a small present inconvenience to run uncontrolled into sweeping disaster.

Fate has cast the United States for the leading role in world affairs at one of the crucial moments of history. If we are to serve the world well in this time of need, the first requirement is that we keep ourselves economically strong. This means keeping production high, credit sound, price and income adjustment geared to the operative needs of the economy, not held tenaciously to the arbitrary demands of any individual or group.

Prospects for Tax Cuts and Inequities in Tax Laws

(Continued from page 13)

the previous high rates did. It is quite likely that the same result would be produced today. We will have the revenue to pay off enough of the debt to demonstrate that we regard the debt as a real obligation which we mean to discharge; and also to give all sorts and conditions of working men the incentive of more pay to take home after taxes.

If you have followed me thus far, you can join with me in filling in the details of my tax proposals for the Federal Government. Whether or not a tax program of any kind, or such a tax program as you and I regard as wise, can be put through in a Presidential election year is a nice question. Certainly none of us would choose such a year as the best time for calm consideration of individual income tax rates and exemptions or of technical amendments. Nevertheless, there is clearly a strong will in Congress to do the job in 1948. Since revenue revision is badly needed, you and I ought to do what we can as citizens to bring it about.

The 1948 Revenue Bills

It is likely that there will be two revenue bills in 1948; one dealing primarily with rates and exemptions, one primarily with amendments to the tax structure to remove injustices and restrictions upon the proper functioning of our economy. Probably, tax reduction will largely be limited to the individual income tax, plus perhaps some of the excises. The corporation will only benefit from the adjustments to the tax structure. Such a program is justified because corporations have had a major tax reduction since the war, the repeal of the excess profits tax; and individuals have not. The tax reduction bill will, of course, have more political repercussions than the revision of the Code; and I enter with great misgivings into this field of political prophecy.

H.R. 1 and H.R. 3950, both vetoed by the President last spring, were attempts to reduce the tax burden on individuals by a more or less flat percentage cut in rates across the board. The reduction in dollars for the big income taxpayer was thus much greater than the reduction in dollars for the small tax payer, but only because the former started off with a much heavier tax burden than the latter.

An alternative method of income tax reduction would be an increase in exemptions. The effect of such a procedure would be first to eliminate millions of taxpayers from the tax rolls, and thus from direct tax responsibility to the government. Second, the revenue cost of even a slight increase in exemptions is great, for all tax payers are affected.

With government costs what they are now and are going to be for some time to come, we cannot afford to reduce income taxes much. Moreover, since the great bulk of the income stream flows to taxpayers with net incomes under $5,000, we cannot afford to increase exemptions much, at least if the income tax is to continue to be the mainstay of the Federal revenue system. In a democracy all able-bodied citizens may be called upon to fight to support and maintain our government in time of war. Should not all citizens with incomes, at least above a minimum subsistence level, pay direct taxes to support and maintain our government in times of peace?

The fact is that exemptions have been severely reduced and rates severely raised during the war years since 1939. Previously, during the 'thirties, exemptions were not much changed, but rates were steadily raised. Hence, in beginning an approach to a more normal peacetime tax system, it would seem just and wise to raise exemptions a little and to reduce rates a little.

In my judgment, the whole surtax rate schedule should be revised if we still believe in the old American dream that a country boy can work his way to the top, and that he should be encouraged to do so. The present scale is so steeply graduated and the rates are so high that added work and accomplishment are not much rewarded. The surtax rates on the higher incomes produce little revenue, but they do discourage risk-taking and endeavors to advance in the business world. In general there is much to be said for the proposition that, in normal times, a man should not be asked to do more than share his income equally with the government. A thorough revision of surtax rates perhaps cannot be done in 1948, but surely a start can be made by some percentage reduction of surtax rates.

Another plan to increase the equity of the individual income tax is to permit husbands and wives in the non-community property states as well as in the community property states to compute their respective taxes by first dividing their total income evenly between themselves. Surely there is no sufficient reason for taxing a man earning $50,000 in California or Texas $6,194 less than a man with the same income in Illinois. With tax rates so high, injustices of this sort are intolerable, and there is every reason to believe that they will be remedied next year. Since the dollar bene-

fit of the change would flow mainly to persons earning incomes in excess of $5,000, the adoption of such a plan will doubtless be accompanied by a reduction in rates or an increase in exemptions that will be beneficial primarily to persons with incomes under $5,000.

Improving the Revenue Act

So much for the income tax reduction bill, which may be the first revenue act of 1948. The second bill, in which we are more interest, may be the bill to improve the structure of the revenue act, to eliminate injustices, to enable business and the tax administration to function more smoothly. A vast number of amendments of this sort have been proposed by individual and professional organizations. They have been widely discussed and thereby perfected; and a larger measure of agreement upon them has been reached by the proponents, the staff of the Joint Committee, and the Treasury. The great problem is to consider, sift out, draft and enact these so-called technical amendments. There are dozens and even hundreds of them. Many of them present debatable questions of policy. Many of them are hard to formulate.

The Committee on Ways and Means and its staff consequently confronted a very formidable task. It decided to accept it and perform it, not to lay it over for the indefinite future. Hearings have been going on for months. Volumes of testimony and of briefs have been submitted. The Committee does not lack for data, but the job of sorting out proposals and drafting the actual revenue bill is a staggering one. The Committee and the staff have done valiant work to accomplish it.

The Work of the Special Tax Study Group

Last June, Chairman Knutson, Congressman Doughton, senior Democratic member, and the Committee asked a group of ten men to help out. That group, called the Special Tax Study Committee, has just made its report to the Committee on Ways and Means. I shall not go all over the detailed recommendations with you here this evening, for I hope you will read them for yourselves. Let me emphasize rather our general purposes.

First, the Committee decided to make no recommendations on such major policy questions as individual income tax rates and exemptions. The Committee on Ways and Means and the Congress are charged with the duty of determining national policy on these matters. The relevant data is readily available, and the Committee and Congress are better informed than we are on the considerations pro and con.

Our Committee thought we could perform more useful service by reviewing and reporting upon major structural amendments. We have made recommendations on about 50 major topics, many of them with several subdivisions. Our basic purposes were largely two-fold. The Treasury and to a degree the whole world is greatly dependent upon the active functioning of our economy. We need to produce more than we have ever done before. Therefore, we need to eliminate those provisions of the tax law which tend to make it difficult for business to function at its best. Our recommendations relative to depreciation, Section 102, and pension and stock purchase plans are examples of our attempt to carry out this purpose. Second, we wanted to eliminate serious inequities and injustices. The tax load will continue heavy for a long time to come. Therefore we must use our best endeavors to distribute it fairly. So we have made recommendations to improve the taxation of family income, to eliminate the double tax on corporate income distributed as dividends, and to ease the tax on small corporations. We hope that another result of our recommendations will be to reduce controversies with the Treasury and litigation in the courts.

Many difficult problems, both of policy and of draftsmanship, are presented by any project to revise the revenue laws. There are several possible ways, for example, to alleviate or eliminate the double tax on corporate dividends. Which shall be adopted? One is a variation of the old undistributed profits tax—let the corporation deduct dividend distributions as well as interest payments and itself pay a tax only on such income as it retains. Another is the British scheme—treat the tax paid by the corporation as a payment on behalf of the stockholder, withheld at the source. Thus the amount of the dividend which the shareholder must return is the amount he received plus his portion of the income tax paid by the corporation.

The simpler plan which our Committee recommended harks back to that embodied in the revenue laws from 1913 to 1936: let the stockholder take credit at the initial rate of normal tax and surtax for the tax the corporation has paid. At present this would mean a 19% credit for a 38% tax. The ultimate goal of this plan would be equivalency between the starting rate of tax applicable to the individual and that applicable to the corporation. Some day we may reach that Utopia. In the meantime, the credit is reasonably fair; and it is more intelligible and practical than either of the other two plans.

Much of the trouble in recent years is really due to court decisions that seem unreasonable and, at any rate, are very hard to live with. Why should a foreclosing mortgagee be taxable upon interest he didn't receive, merely because he bid the amount of principal and interest for the property? He made the bid of interest because it cost him nothing; and in all probability he really had a loss, not a realization of income, on the whole deal. Why should the essential elements of a recapitalization or a reorganization be shrouded with so much judicial mystery when it is plain that Congress intended to and did embody in the law the complete catalog of specific technical requirements for a reorganization? When a sale of property is in fact made by corporate stockholders personally after a liquidation, why should the sale be taxed as having been made in substance by the corporation? How can anyone know what "substance" is when we know that it is not fact?

Our Committee has tried to correct each of these difficulties. The last two presented serious problems for the draftsmen. We have recommended that Congress state expressly that the conditions, qualifications and requirements set forth in Section 112 are all that are to be applied, unless the Commissioner shall prove, by a clear preponderance of the evidence, that the principal purpose of the plan of reorganization was tax avoidance. We realize that the proviso perpetuates uncertainty, but could we reasonably give the Commissioner less? We have further recommended that the gain on a sale of corporate property, whether preceded or followed by a liquidation, should be subjected to only one capital gains tax, thereby eliminating entirely the materiality of the issues of fact which the courts have been trying not very happily to resolve. We have great hopes for both changes.

The amendments I have outlined, plus the fifty others we have recommended to the trust provisions, the pension provisions, the estate and gift tax sections and so on, do not involve much revenue. The ordinary layman would not regard them as major matters. Yet the smooth functioning of the revenue laws, indeed their utility and efficiency in raising billions of dollars fairly, depends upon the justness and decent operation of just such sections as these. Our revenue system could break down because of recognized overcomplexity and inequity; and it is approaching unpleasantly close to that situation today. The Committee on Ways and Means deserves a very good mark for recognizing the need of a thoroughgoing revision of the Code, and the possible utility of a citizens' advisory committee to help out. I know you join me in hoping that the effort for sound basic reform of the revenue laws will actually be successful.

Amending Section 102

One word more. Some of our recommendations go a long way toward sustaining the taxpayer's accounting practices and business decisions, unless the Commissioner proves him wrong. Thus, the burden of showing that surplus is improperly accumulated for Section 102 purposes is put on the Commissioner, as well as the burden of showing that the taxpayer's method and rate of depreciation are erroneous. Both provisions reverse the former presumptions. These provisions will only work well if taxpayers in general make honest, defensible business decisions. Our Committee has based its work on the premise that the bulk of taxpayers are honest businessmen. If we are shown to be wrong, the country will be in for another decade of tax evasion investigations, witch-hunting and loophole closing.

The perfection of the revenue laws is probably a never-ended task. Many wise men have worked at it—men like Cordell Hull and George May and Arthur Ballantin and A. W. Gregg and Randolph Paul, to name ony a few—and yet so much remains to be done. Our Committee earnestly hopes that our report will appeal to such men as yourselves, that you will find its recommendations sound, and that you will work for its adoption. The Code will not be perfect, even if all our ideas are embodied in it. But if you agree with us that it will be greatly improved thereby, and will make your endorsement known, we ought to be able to make a long step forward in 1948.

Keystone Steel Common Offered at $45⅞ Sh.

Paul H. Davis & Co., Union Securities Corp. and associates on Nov. 25 publicly offered 41,270 shares of common stock, no par value, at $45⅞ per share. The shares offered are already outstanding and are being sold on behalf of the National Lock Co., a subsidiary of Keystone. The Keystone Company is engaged principally in the manufacture and sale of steel wire and wire products. Two subsidiaries (National Lock Co., 68.43% owned and Mid-States Steel & Wire Co., 77.41% owned) are also engaged in the manufacture and sale of steel wire hardware and other products. For the fiscal year June 30, 1947. Keystone reported consolidated net earnings of $6,087,002, or $9.74 per share on the 625,000 common shares outstanding, compared with $2,277,605, or $3.01 per share for the 1946 fiscal year.

Garvin, Bantel to Admit

Garvin, Bantel & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will admit Thomas J. Thompson to partnership on Dec. 3, and Walter J. McAdams, Jr., to partnership on Dec. 4. Mr. McAdams will acquire the Exchange membership of Henry S. Allen, Jr.

News About Banks and Bankers

(Continued from page 18)

completed, and fluctuations in the market value of the investment securities of Clinton Trust prior to the close of business on Dec. 15, 1947. Officers of Clinton Trust are confident that the price to be paid to common stockholders will be not less than $14 per share and, in the absence of fluctuations in the market value of investment securities held by the Clinton Trust Company, is likely to be more. Consummation of the sale is subject to the approval of the Commissioner of Banking and Insurance of New Jersey.

* * *

The Forbes National Bank of Pittsburgh, Pa., will become part of the **Mellon National Bank and Trust Co. of Pittsburgh** around the end of December it was stated in the Pittsburgh "Post Gazette" of Nov. 19, which also said:

"The Forbes National, which is a member of the Melbank Corporation group, has two offices. The main building will become the Oakland office and the branch in the Gulf building, the Gulf building office, of the Mellon National. Richard K. Mellon, Chairman of the Mellon National, and James M. Bovard, President of the Forbes National, said J. Nevin Garber and Paul C. Harper, Vice-Presidents of the Forbes National will be managers of the Oakland and Gulf building branches, respectively. The Forbes National was organized in December, 1927, with Mr. Mellon as the first President. The bank now has capital of $500,000 surplus of $700,000 and total resources in excess of $23,-600,000."

The same paper further stated that "William E. Howard, President of the Braddock National Bank, which this month became the Braddock branch of the Mellon National, has been named Assistant Vice-President of the latter institution." Plans of the Mellon National to operate the Braddock National as a branch were referred to in our Oct. 30 issue, page 1757.

* * *

Ceremonies were held recently in the lobby of **The Bank of Virginia at Richmond, Va.,** incident to the unveiling of a portrait of Thomas C. Boushall, President of the bank. The occasion climaxed the bank's 25th anniversary program, and the portrait was presented to the bank by the board of directors as a token of esteem for the leadership of their President, Mr. Boushall, who has guided its destinies through a quarter of a century. Gaius W. Diggs made the presentation on behalf of the board of directors. Miss Frances Boushall, daughter of the President, unveiled the portrait. W. W. McEachern, Executive Vice-President, received it for the bank. In making the presentation, Mr. Diggs paid high tribute to Mr. Boushall's administration.

* * *

George C. Brainard, Chairman of the Board of Directors of the Federal Reserve Bank of Cleveland, announced on Nov. 20 the election of John T. Rohr, President of **The Toledo Trust Co. of Toledo, Ohio,** and Lawrence H. Lund, Vice-President and Treasurer of the Westinghouse Electric Corp., Pittsburgh, Pa., as directors of the Federal Reserve Bank. The new directors, chosen by the larger member banks in the Fourth Federal Reserve District, were elected for three-year terms starting Jan. 1, 1948. Mr. Rohr, a class A director, will succeed Frank F. Brooks, Chairman of the board of directors of the **Peoples First National Bank and Trust Co., Pittsburgh,** who declined renomination. Mr. Brooks has been a director of the Federal Reserve Bank since Nov. 16, 1937. Mr. Lund, a class B director representing commerce and industry in the Fourth District, will succeed George D. Crabbs, Cincinnati, O., industrialist and civic leader who has been a director of the Federal Reserve Bank continuously since Jan. 1, 1924.

* * *

The resignation of Thomas E. Millsop, President of the Weirton Steel Co., Weirton, W. Va., as a member of the board of directors of the **Federal Reserve Bank of Cleveland** was announced on Nov. 17 by Board Chairman George C. Brainard. Mr. Millsop submitted his resignation, which has been accepted, effective Dec. 31, in accordance with a ruling of the Board of Governors of the Federal Reserve System to the effect that persons holding political office cannot, consistently with the spirit and underlying principles of the Federal Reserve Act, serve as directors of Federal Reserve banks. Mr. Millsop recently was elected Mayor of the City of Weirton, W. Va. Chairman Brainard stated that the directors accepted with regret the resignation of Mr. Millsop, who has been a member since April 12, 1940. Mr. Brainard ordered a special election to fill the unexpired term, ending Dec. 31, 1948, of Mr. Millsop, who is a class B director.

* * *

William T. Cameron, Assistant Cashier of the **Detroit branch of the Federal Reserve Bank of Chicago,** joined **The Northern Trust Company, Chicago,** as a Second Vice-President the present month — Nov. 10, the Board of Directors announced. Mr. Cameron, who has been Assistant Cashier of the Detroit bank since 1941, was responsible for loans made to war contractors under Regulation V, industrial loans made under Section 13b of the Federal Reserve Act, administration of Regulation W from 1941 through 1944. In addition, he was responsible for the supervision of the Discount, Safe keeping, Accounting, Credit, and RFC Custody Departments of the Detroit branch. A graduate of the University of Illinois in Banking and Finance, Mr. Cameron started, in 1929 with the Sibley State Bank of Sibley, Ill. In 1931 he was appointed Receiver of the Melvin State Bank of Melvin, Ill. He started with the Federal Reserve Bank of Chicago in the Auditing Department in 1934, was transferred to the Detroit branch in 1936 as supervisor of audits, and made Assistant Cashier in 1941.

William T. Cameron

* * *

The **Minneapolis Federal Reserve Bank** announced on Nov. 18 that in the election which closed that day the following were elected as directors of the Reserve Bank of Minneapolis to serve for the three-year term beginning Jan. 1, 1948:

J. R. McKnight, President, **Pierre National Bank, Pierre, S. D.,** to serve as Class A director—re-elected by member banks in Group 2 (those banks having combined capital and surplus not exceeding $250,000 but in excess of $75,000); Walter H. McLeod, President, **Missoula Mercantile Company, Missoula, Mont.,** to serve as Class B director—elected by member banks in Group 3 (those banks having combined capital and surplus of $75,000 and less).

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Strict technical interpretation calls for selling across 184 and buying around 180. Long term indications point to sudden move with little warning.

In recent weeks it has become increasingly more popular to throw sling-shots at the Dow Theory. I haven't the faintest idea of coming to its defense for the simple reason that any defense from me would be presumptuous. I'm certain that, in any case, there are people much better equipped than I to speak for it.

* * *

So far as I'm concerned the problem of stock market theories was always an academic one. I have yet to come across any theory or system that works in the long run. In fact the exponents of a theory—whether Dow or anybody else's—always attribute mistakes to their own misinterpretation of certain signs, never to the theory. It is obvious, therefore that any theory which has many interpreters must trip up some of their followers.

* * *

In my own little niche I have long followed the ticker tape. When that was replaced by the translux it just meant that I had less ink on my fingers at the end of the day. I don't know if I knowingly followed a theory. Looking back at it, I probably did. But this theory, if it was that, was based (and still is) on action of stocks completely divorced from averages. I have of course referred to averages. That was because many more people are familiar with them than with any new nomeclature I can think up. Besides it's more convenient.

* * *

All this argument about theories has little to do with the present market which I, and I believe you, are primarily concerned with. So let's get down to it.

* * *

Last week's column was barely out of the typewriter when the market started up. When I sat down to write, the averages (see! here they are again) were around 180. When it got into print they were close to 184. My belief is that somewhere around 184-186 the amount of stock offered is too much for the market to handle at this time. From a trading viewpoint it would be practical to get out of at least half positions at the upper figure, and buy them back when they drifted down to around the 180 level. At the same time it must be remembered that the 178 level is to be considered a critical point.

* * *

For those not inclined to trade them that close, I'd like to point out that the chances of more than a minor trading rally are daily becoming more and more likely. When it does come I doubt if it will start with the customary orthodox signals.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Cavanaugh Director

H. T. Cavanaugh, a partner of G. L. Ohrstrom & Co., has been elected a director of Dart Truck Company, of Kansas City, it is announced. G. L. Ohrstrom & Co. recently acquired for investment all of the common stock of Dart Truck Company, which specializes in huge, labor-saving, off-the-highway trucks for the mining, oil and lumber industries.

H. T. Cavanaugh

Schram Not Quitting As NYSE President

Rumors that Emil Schram has resigned or intends to resign as President of the New York Stock Exchange are entirely without foundation, according to a statement by Robert P. Boylan, Chairman of the Board of Governors, who added, "He has a contract which runs until the end of 1948. I hope that he will remain as President many years after that time. In saying this, I express the sentiments of the Board of Governors and of our community generally."

Greenville Representative

GREENVILLE, N. C. — W. Erskine Duff, Vice-President of the First Securities Corporation of Durham, N. C., is in charge of the firm's new office in the State Bank Building, Greenville.

With K. J. Brown & Co.

(Special to THE FINANCIAL CHRONICLE)

MUNCIE, IND.—Ben M. Martin is with K. J. Brown & Co., Wysor Building.

Program of Tighter Credit Controls

(Continued from page 2)

sharply restricted by the Board's margin requirements.

In the face of these large and expanding demands, production is practically at present capacity and further growth will necessarily be slow. The physical volume of output of manufactured goods and minerals in 1947 has averaged 186% of the 1935-39 average. Current output is about one-fifth below the wartime level, largely because of the reduction in weekly working hours. Agricultural output in physical terms has continued for the past three years at record levels of about a third above the maximum of any prewar year. This volume reflects general favorable weather and further growth can hardly be expected. Construction of all kinds, including residential building, exceeds any previous peacetime year. Expansion in building is now being retarded by shortages of essential labor and materials. Railroad transportation is limited by the shortages of railroad cars and other equipment. Employment is at very high levels with acute shortages in many fields and with a minimum of unemployment.

War Financing Cause of Inflation

The source of the present inflation is war financing and the enormous Federal deficits incurred in preparation for and prosecution of global war. During the six-year period, June 30, 1940 through June 30, 1946, the Government raised about $398 billion, but only $176 billion, or 44% came from taxes. The remainder of $222 billion, or about 56%, was raised by borrowing. And of this total which was borrowed, approximately $90 billion, or 23% of total needs, was raised by selling government securities to the commercial banking system, including those purchased by the Federal Reserve banks.

As the Reserve Board stated in its 1945 Annual Report to Congress, it is important to bear in mind that borrowing from the banking system, whether by the Government or by others, creates an equivalent addition to the country's money supply. To the extent that the Government did not finance its war program by taxation, it was obliged to borrow, and to the extent that it did not borrow from non-bank investors, it relied upon the banks and thus created new supplies of money. The Federal Reserve by purchasing government securities, supplied the commercial banks with reserves needed as a basis for the increased money supply.

As a result, the country's money supply, as measured by privately held demand deposits and currency in circulation, increased more than 2½ times, rising from less than $40 billion in June of 1940 to $106 billion at the end of June 1946. In the same period, time or savings deposits nearly doubled. In addition, the general public, outside of banks, insurance companies, and government agencies, accumulated or increased holdings of government securities to $100 billion, or nearly seven times as much as in June of 1940. These government securities in the hands of the public are the equivalent of money because they are readily convertible into cash.

It should be strongly emphasized that the banking system was the instrument, and not the instigator, of this swollen money supply. The bankers performed a vital service in the financing of the war and particularly in the sale and distribution of savings bonds and of other government securities.

If it were possible to finance a great war entirely by taxation there would, of course, be no increase in the public debt. Or if it were possible to do the financing by a combination of taxation and borrowing outside of the banking system, there would be no increase in the money supply. In retrospect, we can see that we could have and probably should have taxed more and borrowed more from non-bank investors and less from the banking system. We are suffering the consequences today of an excessively swollen money supply which neither the bankers individually nor government authorities have adequate means at present of controlling.

In order to enable the banks to purchase government securities essential to the financing of the war, the Federal Reserve System maintained easy money conditions and made Federal Reserve credit and reserves readily available to the banks. The vast money supply thus created was held in check by an elaborate harness of controls consisting, among other things, of allocations of scarce materials, construction permits, price and wage ceilings, rationing, and the excess profits tax. When the harness of controls was prematurely removed and no effective substitute was devised to hold back the flood of effective demand, it was apparent, or at least it should have been apparent, that a sharp rise in prices was inevitable.

Wage-Price-Profit-Credit Spiral

As a result, the economy was caught in a dangerous wage-price-profit-credit spiral, acutely intensified by short farm crops abroad, and reduced corn and cotton crops at home. Critical conditions abroad, in part resulting from our rising prices, impose upon us obligations which must be met even though they add to our inflationary difficulties.

It would be blindly and foolishly optimistic to believe that the spiral of inflation can continue through further general wage, price and profit increases and further overall expansion of credit without ultimate serious deflation. The longer the necessary readjustment is delayed, the longer it will take to reach a stable condition of employment and production. The most serious maladjustments are evidenced by the increasing numbers of our people whose incomes do not keep pace with the rising cost of living. They are being priced out of the market for housing and many other things, and in countless instances their savings and credit have already been exhausted. The higher prices rise and credit expands, the greater the subsequent liquidation and downward pressure on prices is bound to be. As the November letter of the National City Bank of New York correctly states, "Rapidly accumulating debt is both a cause and a consequence of the inflationary pressures, for in a wage-price spiral, business constantly needs more and more money to keep going and this leads to the incurrence of more and more debt by business and more and more spending by the individual. To check this kind of spiralling—which is to the ultimate benefit of no one and to the injury of all—is not simple."

The problem we all face now is what can be done at this late stage, if necessary, to curb further inflationary developments. As a practical matter, we cannot now put back the elaborate harness of wartime controls, and it seems that we are left only with the choice of certain curbs or restraints selectively applied at some of the more critical points of danger.

Main Reliance Now on Fiscal Policy

In the absence of a comprehensive scheme of controls we must continue to put our main reliance on fiscal policy, which is by far the most effective way to deal with the demand side of the equation, while we do everything possible to maintain and increase production. We should have the largest possible budgetary surplus while the inflation danger exists. And this means taking from the public in taxes money that otherwise would continue in the spending stream. It means rigid government economy. It means deferment of all expenditures, Federal, State, or local, to the greatest extent consistent with public obligations at home and abroad. Using the budgetary surplus to pay off bank-held public debt as it becomes due will reduce the money supply by an equivalent amount. This is a reversal of the process by which the money supply was expanded. In an inflationary boom such as we are experiencing the government should pay off as much of its debt as possible.

Public debt cannot be reduced during deflation. Budgetary deficits, not surpluses, are an inevitable consequence of serious deflation. Tax reduction would be appropriate after deflation sets in, not during an inflationary period. If a reduction of taxes at this time would, in fact, call forth more production, then it would be justified. Today we still have acute scarcities of labor and materials. Adding to existing buying power either by tax reduction or aggregate expansion of credit can only have the effect of bidding up the prices paid for both labor and materials. If conditions were reversed and we had idle labor and a surplus of materials and productive facilities coupled with a shortage of capital and insufficient purchasing power, then reduction in taxes, particularly that which would stimulate mass buying power, would be in order.

Outline of a Program

If I were to outline a program to meet the situation with which we are now faced, I would list the following steps to deal with the causes rather than with the effects of inflationary pressures. They are listed in what I consider their order of importance.

(1) Increased productivity both at home and abroad. Production is the ultimate solution for inflation. Nothing could be more effective than increased productivity of labor and longer hours of work by everyone. In short, if all who are engaged in producing goods and essential services were to work more, and save more, and spend less, the unbalanced relationship between demand and supply would most effectively be corrected and prices would come down.

(2) Suspension of future demands for wage increases, especially those of organized labor where the increases have been greatest, is necessary if the present unbalanced relationship is to be corrected without severe deflation. Business profits after taxes are more than double what they were in any prewar year and almost double profits in any war year, and therefore business should hold prices down or should reduce them.

(3) A fiscal policy to produce the largest possible surplus to be used to pay off bank-held government debt and thus reduce the money supply. This means the greatest possible economy in all government expenditures. It means more adequate financial support of the tax collection machinery of the government to prevent tax evasion. It means no general decrease in tax rates at this time. It should also mean the elimination of the agricultural price support program unless price ceilings are also reimposed.

(4) Continuation and expansion of the Treasury's Savings Bond campaign, with adequate financial support by Congress. Funds

so raised have a two-fold effect. It removes these funds from the spending stream and makes them available to pay off bank-held debt, thus reducing the money supply.

(5) Legislation giving the Federal Reserve System such authority as may be necessary to restrict further overall expansion of bank credit. The need for this authority would be less if Congress authorizes restoration of consumer instalment credit restrictions and if stricter appraisals and less liberal credit terms were applied under the Veterans Administration, the FHA, and the Home Loan Bank programs of housing finance.

Other actions have been proposed which, however, deal with the effects rather than with causes. Allocations, construction permits, price and wage ceilings, commodity margin requirements, installment credit regulation, export and rent controls, and similar devices are all in the category of curbs rather than cures. Where they can be applied as a practical matter and enforced, they can be useful, but they do not go to the sources of the problem.

I should like to summarize what the Federal Reserve Board believes might be done in the monetary and credit field. In its 1945 and 1946 annual reports to Congress the Federal Reserve Board described the situation in which those with responsibility for monetary policy find themselves as a consequence of the war. As the Board stated in the 1945 report:

"In common with other nations whose energies were devoted primarily to winning the victory, the United States had no choice, under the exigencies of a global war, except to use monetary powers in furtherance of essential war financing and not as an anti-inflationary weapon. There has been a widespread assumption that, with the coming of peace, such statutory powers as the Reserve System possesses should be exerted in the traditional way against the heavy inflationary forces at present confronting the country. The Board believes that such an assumption does not take sufficiently into account either the inherent limitations of the System's existing statutory powers under present-day conditions, or the inevitable repercussions on the economy generally and on the government's financing operations in particular of an exercise of such existing powers to the degree necessary to be an effective anti-inflationary influence."

New Federal Reserve Powers Needed

Of late the Federal Reserve System has been increasingly criticized for not adequately using its existing statutory powers to restrain bank credit expansion. It is very important, therefore, that the Congress understand what those powers are and why the Board does not believe they can be used to deal with the credit problem, and why we suggested in the 1945 and 1946 reports, and suggest now, that Congress consider providing other authority that may be necessary to cope with the situation. We did not then and we do not now seek power, but we feel that we would be remiss, as an agency of Congress, if we failed to report the situation as we see it and to propose alternative means of dealing with it inasmuch as we feel that our existing powers are insufficient.

The Reserve System has always had broad powers to influence the supply and cost of bank credit. Through open market operations, that is, buying and selling of government securities, the System either gives reserves to the banks or absorbs reserves. Reserves are the foundation on which bank credit is built. If banks have no reserves they cannot lend. But they can obtain reserves when they borrow from the Federal Reserve Banks or sell government securities to the Reserve Banks. And the banking system automatically receives reserves through gold acquisitions, and also when the Federal Reserve Banks buy government securities from nonbank investors. The Reserve System can restrain banks from borrowing by raising the discount rate sufficiently high to make the borrowing unprofitable. It could refuse to buy government securities and shut off that source of reserves. It has no powers to deal with reserves arising from gold acquisitions.

Use of Discount Rate

Why, then, doesn't the System simply make the discount rate prohibitive and at the same time refuse to buy any more government securities? Let me say that if the Congress disagrees with us and feels, as do some bankers and insurance company executives, that we should more fully use existing powers, we would welcome such an expression from the Congress. In that case, there would be no need to consider any alternative powers. On the other hand, if Congress agrees that our existing powers are not appropriate under present circumstances, full consideration should be given to any proposal that would help to meet the situation.

First, let us consider what the effect would be of raising the discount rate by itself. Actually, the effect would be negligible, except for possible psychological reaction, because as long as the System stands ready to buy government securities in the open market, banks can obtain reserves at will by selling such securities out of their portfolios. Suppose, then, that the System refused to buy the securities—and that is the heart of the matter — what would the consequences be? Bear in mind that the total interest-bearing debt of the government is $256 billion, more than five times what it was before the war. The public debt at the beginning of 1940 was about one-fifth of the total public and private debt of the country, whereas at the present time it is nearly two-thirds of the entire indebtedness of the country. About one-third of the total government debt is short-term marketable debt and would need to be refunded into higher-rate securities; this would raise the cost to the government, and therefore to the taxpayers, of carrying the public debt. Already the nation's tax bill for interest cost is approximately $5 billion, or nearly one-seventh of the total Federal budget.

Just how high would interest rates have to rise to deter business and individuals from borrowing from banks? Higher interest rates do not deter the lender. Rising interest rates are like rising prices. At some point they may deter the borrower or buyer. They do not deter the seller or lender. I doubt if anybody knows how high interest rates, especially short-term rates, would have to rise to discourage borrowers. Certainly the rates would have to be substantially above the present relatively low levels. Bank customers, particularly business, with seemingly insatiable markets awaiting their products, are hardly to be deterred by one or two points of increase in bank interest rates.

The additional costs to the government in carrying the public debt would be difficult to estimate, but they would amount to billions a year over a period of time. If that were the only consequence, it might be argued that the extra cost to the government would be justified because inflationary borrowings would cease.

However, this is only one aspect of the matter. In the process of leaving government securities to the free play of variable forces **in the market, the Treasury would be confronted with a continuing puzzle in all of its constantly recurrent refunding operations. It could not tell from day to day at what price it could sell its securities. It would be entirely at the mercy of uncontrolled factors in the market, if, indeed, conditions did not become so confused and chaotic as to demoralize completely any refunding operations.**

I recently saw a prediction by a **very keen bond market analyst that failure of the Reserve System to support the 2½% rate of marketable government bonds would lead to a wholesale liquidation of all government bonds, including the non-marketable E, F and G bonds. He declared that it would be the most dramatically inflationary move that could be made at this time, the repercussions of which would be, as he put it, so catastrophic as to make present fears appear as one raindrop in a storm. That is strong language. Nobody can say with certainty that it is too exaggerated.**

Support of Government Securities

In any case, I think it is fairly **clear that withdrawing support from the government securities market and letting interest rates rise on government securities would not increase the power of the Federal Reserve System to offset increases in bank reserves from gold acquisitions. Sales of system holdings of government securities for this purpose would have to compete with private credit demands. Private borrowers might outbid us for these reserves. There would be no certain level of security prices or interest rates at which we could dispose of enough government securities to offset gold imports.**

On the other hand, we have to recognize what would happen if we follow the present course of policy in order to maintain the public's confidence in government credit and avoid any unnecessary increase in the interest cost to the government for carrying the public debt. Commercial banks currently hold about $70 billion of government securities. This sum is about 50% of their total deposits. If they should sell half of these securities and the Federal Reserve System, in providing an ultimate market, should buy them, the banks would acquire an equivalent volume of new reserves. On the basis of these reserves, the banks could expand credit by about six times, or more than $200 billion. While it is unlikely that the banks would dispose of so large a proportion of their holdings, it nevertheless is a measure of the potential bank credit expansion that can occur if the banks are left with complete freedom to convert their government security holdings into reserves at will.

This bank credit expansion potential is apart from other sources of bank reserves. Gold is now flowing into our banking system in large quantities from foreign holdings. As a result, deposits are increased and on the asset side banks gain an equal amount of reserves. Over the next year, the gold inflow is estimated at from $2 to $3 billion. Multiplied by six, this would permit an expansion of bank credit of from $12 to $18 billions.

There are two other important potential sources of increased bank reserves. Non-bank investors, mainly business corporations, hold about $13 billion of short-term government securities. Businesses face increasing needs for working capital under prevailing inflationary conditions. To some extent, these needs will be met by sales of short-term government securities, which the Reserve System may have to buy.

The second possible source of bank reserves is the $59 billion of marketable, medium and long-term government securities held by non-bank investors. With widening opportunities for the placement of funds in private investment at increasingly attractive yields, there is a small amount of shifting by investors of their holdings of marketable long-term government securities. If inflation continues, this shifting will likely increase. Such sales have to be met by Federal Reserve support of the prices of marketable government bonds so as to protect the 2½% rate on long-term issues. The result of these support operations is to increase bank reserves and thus to support further inflation.

Under present and prospective conditions, it is not only desirable but essential, in the opinion of the Treasury and of the Reserve System, that the established 2½% rate on long-term marketable government securities be maintained.

Raising Reserve Requirements

The Federal Reserve has one other power that we have been criticized by some for not using. That is the power to raise the reserve requirements of the banks in New York and Chicago from 20 to 26% of their net demand deposits. This is a relatively minor matter and does not in any way go to the heart of the problem. Any action taken would have an effect on banking conditions only in two cities in which the credit expansion, as well as deposit growth, has been relatively less than for the rest of the country.

We have given a great deal of study to this admittedly difficult and complex problem. We are convinced that the remedy of letting interest rates on government debt go up on the theory that this would bring an end to inflationary borrowing is dubious at best, as has been demonstrated in past monetary history, notably in the 20's when high rates were unsuccessful in restraining speculation in the stock markets, real estate, or otherwise.

As was made clear in the Annual Report for 1946, we are not opposed in principle to higher interest rates if some desirable ends and the public interest can be served by such a policy. In fact, in recent months we have cooperated with the Treasury in permitting some moderate, corrective rise from wartime levels of interest rates on short-term government securities. This adjustment was made to reduce the wide differential prevailing between short-term and long-term interest rates. Such a large differential was having the effect of encouraging banks to sell short-term securities, which the Federal Reserve bought, and to buy long-term securities in the process, thereby encouraging multiple credit expansion. The differential in rates was also exerting a strong downward pressure on yields of long-term interest rates. We were aware that this decline was artificially induced by investment policies of the banking system known as monetization of the public debt, and resulted in bank credit expansion. We also recognize the importance of checking the decline in long-term interest rates to protect educational, charitable, and pension funds, as well as insurance institutions, savings banks, and individuals depending upon interest for income.

The action permitting a moderate rise in short-term interest rates coincided, however, with strong demands for long-term funds, which put considerable strain on the market for corporate and municipal securities. As a consequence, these issues have been made more attractive as investments. They are thus somewhat more competitive, with long-term governments than before. We have to face this fact of the market place and be prepared to offset any shifts in investor holdings from government bonds to other securities. The undesirable aspect of the situation, from the standpoint of inflationary credit conditions, is that support **of government bonds adds to bank reserves. These developments indicate that a policy of permitting interest rates on short-term government securities to rise has gone about as far as can be justified under present circumstances.**

We have, therefore, been compelled to seek some better alternative than higher interest rates to restrain further bank credit expansion. We believe that one is available which will not make the government and the taxpayer bear the added cost of the restraint, that will impose very little, if any, hardship on the banks, that will, in fact, have a compensating aspect in that the restraint imposed would increase interest rates on private borrowings without additional cost to the government.

A "Special Reserve"

I refer to the second alternative proposed in the 1945 Annual Report. **We recommend for consideration, as the best alternative we have been able to devise, that all commercial banks be required as a temporary measure to hold some percentage of their demand and time deposits, in addition to present reserves, in a special reserve in the form either of short-term government securities or cash, cash items, interbank balances, or balances with Federal Reserve Banks.**

Such a requirement **would be far less onerous for the banking system than any other effective method that has been suggested in the long period in which this problem has been discussed by bankers, by economists, and public officials. Manifestly, such a requirement would have to be imposed gradually, if at all, as an offset, for example, to gold acquisitions, and the purchase of government securities from non-bank investors, and also to limit the too ready availability of reserves, now enabling banks to obtain reserves at will, on which a multiple expansion of credit can be built at a ratio of fully six dollars of lending for every dollar of reserves. We would propose that the special reserves requirement be limited by law to a maximum of 25% on demand and 10% on time deposits. It should be made applicable to all commercial banks. It would not be effective if applied only to member banks of the Federal Reserve System, and would be an unjustifiable discrimination.**

We recognize that this proposal is no panacea, but it would be an important, available restraint, now lacking, to be applied equally to all commercial banks so that the individual banker would be in the same competitive situation he is in today. Over the next four months there is likely to be little need for the suggested special reserve because of the large amount of Treasury surplus funds, taken from the market through taxes, which will be available to retire bank-held public debt. This would temporarily exert pressure against bank credit expansion.

The proposed special reserve requirement has a number of important advantages over other methods of dealing with the problem of restricting the banks' expansion of credit:

(1) The plan would have about the same effect in limiting credit expansion as an increase in primary reserve requirements which was proposed as the third alternative in the 1945 Annual Report. It would enable the banks to retain the same volume of earning assets that they now hold, whereas an increase in basic reserve requirements would make it necessary for them to reduce earning assets, with adverse effects upon the earnings position of banks.

(2) The ratio of potential credit expansion on a given increase in reserves would be narrowed to the extent that the special reserve was required. At the maximum requirement proposed, it would be

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Program of Tighter Credit Controls

(Continued from page 39)

lowered from six to one to nearly two and one-half to one.

(3) It would bring about an increase in interest rates on private debt and would increase earnings of the banks from this source where rates on loans are comparatively low. It would accomplish this purpose, moreover, without increasing the interest cost on the public debt or permitting unstable prices in the government securities market. The plan, in effect, would divorce the market for private debt from the market for government securities.

(4) The main effect of the plan would be to reduce the availability of bank credit. This would be accomplished by putting restraint on the lenders, that is, the banks. They would be less willling to sell government securities in order to expand credit because the amount of such liquid assets as they held as secondary reserves could be greatly reduced by the requirement. Such a possibility, even without action being taken by the Reserve authorities, would have a very restraining influence.

(5) The plan would not rely on higher interest rates to restrain private borrowing, but to the extent higher interest rates restrain such borrowing, the proposal would make use of the interest rate mechanism. Hence, the cost of restraining credit would be borne by private borrowers who are incurring additional debt, and not by the government which is reducing its debt.

(6) The plan would restore use of the customary instruments of Reserve influence on bank credit expansion, namely, discount rates and open market operations. Support of these instruments by the special reserve requirement would enable the Federal Reserve to make it more difficult and costly for banks to borrow Federal Reserve funds.

(7) No alterations in the banking structure, in the authority of the supervisors, in customary methods of bank operations, or in established interbank relationships would be introduced as a result of imposing the requirement.

(8) The banks would be left by the plan with sufficient latitude to meet essential needs of the economy for credit, and the public would be assured of a high degree of liquidity and safety for the banking system.

Many bankers argue that this proposed requirement is unnecessary because the banks themselves have a vital interest in the conservative extension of credit, and will prevent excessive credit expansion as a matter of ordinary banking prudence. The banks, however, confront a situation in which they can readily meet unlimited private credit demands and in which such demands are vigorously sustained by inflation while at the same time, these demands are contributing to inflation. They are both a cause and effect. The banks are not in a position to refuse legitimate, sound credit demands of individual customers, and current loans, taken separately and in the light of the customer's satisfactory credit risk, do appear to represent legitimate credit needs. But in accommodating these credit demands freely, the banks as a system are expanding bank deposits and adding to the money supply.

Increase in Bank Credits

From the beginning of 1946 through October of this year, the banking system as a whole has increased its loans and investments —other than Treasury obligations —by an estimated $12 billion. This has added a like amount to the money supply. This, together with gold acquisitions, is largely responsible for an increase in privately held deposits of $14 billion.

Reconversion of the economy from war to peace required aggressive bank financing of agriculture, commerce, and industry in order to facilitate the earliest possible attainment of peacetime activity on a much higher level than prevailed before the war. Some of this bank credit expansion for private purposes, therefore was justified. High levels of peacetime activity have long since been attained, however; yet, bank credit expansion is continuing and in recent months has gained rapid momentum.

None of us likes restraints. I am sympathetic with the bankers who resent seemingly to be singled out for a special restraint on their wares, which are loans and investments. To the uninformed, it might appear that the banking system has been or is now to blame for the oversupply of money. This is not the case.

Instinctively and naturally, bankers do not relish restrictions on their activities any more than labor likes wage controls, or agriculture likes price ceilings. We realize that the special reserve proposal which we consider the best alternative, after considering all of the circumstances, will be very strongly resisted by those bankers who fear that it points accusingly at them, or that it is more regimentation, more bureaucratic reaching for power, or an encroachment on State rights, or an opening wedge to force nonmember banks into the Reserve System. All these things have been said to us privately or publicly—and we can only say that if a better alternative can be devised, we would welcome it.

The Board recommends that the administration of the special reserve plan be placed in the Federal Open Market Committee whose members, in addition to the Reserve Board, are five Presidents of the Federal Reserve Banks. This should help to remove some of the misgivings of bankers.

The opposition of some very prominent bankers to any new power for the Federal Reserve is expressed in a statement which they have asked me to submit for the record. It is a statement of the Federal Advisory Council, composed of 12 bankers, one from each Federal Reserve district. Often we agree. In this case they unitedly oppose the remedy we advocate. They contend that banks are not indulging in inflationary expansion of credit; that, therefore, the problem should be attacked on other fronts, and that no legislation is required on the banking front. They differ with us also in unanimously opposing reinstatement of instalment credit regulation.

I am sure the Council's views reflect the opinion of a great many bankers, who are entirely sincere in the belief that the loans they are extending are safe, deserving risks necessary to sustain full production. That conviction, honestly held, is unhappily characteristic of boom psychology. In 1920, or in the latter part of that decade, bankers would have made the same replies that they give today if asked whether they thought the loans they were making should not be made. A short time later they were trying desperately to liquidate some of these loans. The individual banker is judging by standards applying to the individual borrower and risk.

The Reserve Board the Congress, and all responsible for public policy must necessarily approach the whole problem from a different standpoint. The question we must ask is whether any further expansion in the aggregate amount of credit is desirable or dangerous. If it, in fact, called forth more production it would be desirable. If it only permits one borrower to bid against another would-be buyer for scarce goods and thus adds to upward pressures on prices, it is dangerous. It is our best judgment that overall expansion of the money supply at this time is inflationary and dangerous.

Attitude of Banking Leaders

It is unfortunate, I think, that banking leaders oppose protective measures against inflationary forces arising in the credit field. They seem to forget that in order to assist in war financing, the government provided the banking system with additional reserves which enabled the banks to buy government securities; that this created new deposits in the banks; and that they have had also the benefit of interest received on the government securities they have held and will continue to hold for an indefinite period. They object even to a temporary limitation on the *further* use of these funds as a basis for loans to private borrowers, which would in turn create more and more deposits. The government has an obligation and a duty to step in at this time of national danger to say to the banks, "We are not proposing to deprive you of benefits you have already derived and will continue to derive from the vast increase in bank deposits resulting from your purchases of government securities, but we do say that you should be willing to accept a reasonable limitation on using a war-created situation to multiply private loans in peacetime when they serve to intensify inflationary pressures."

To sum up, the proposed special reserve requirement is only a part, though a necessary part, of any effective anti-inflationary program. As I have indicated, action on other fronts, by far the most important of which is fiscal policy, is necessary to the success of that program. And the need for action on the monetary and credit front would be reduced to the extent that needed action is taken on other fronts.

Miles A. Sharkey With Staff of Lester & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Miles A. Sharkey has become associated with Lester & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Sharkey was formerly in the trading department of the Los Angeles office of Blyth & Co., Inc. Prior thereto he was with Stern, Frank & Meyer, and was an officer of O'Melveny-Wagenseller & Durst.

Miles A. Sharkey

Jos. F. Trounstine Dies

Joseph F. Trounstine, formerly a member of the New York Stock Exchange, died at his home at age of 54. He retired from business several years ago because of ill health.

F. L. Brokaw Dead

Francis L. Brokaw, associated with Shelby Cullom Davis & Co., was found dead on the farm where he had been born in Somerville, N. J. The death was listed as a suicide.

Sees No International Stability Without Exchange Stabilization

(Continued from page 19)

countries are among the largest employers, operating the railroads and public utilities as well as the recently nationalized industries, an increase in wages would automatically result in an increase in government expenditures. It is not likely that prices of goods and services supplied by governments would be increased sufficiently to offset the increased operating expenditures. Since, in a period of drastic inflation, revenues do not keep pace with expenditures the deficits of the governments would be larger than ever before, thus further stimulating the forces of inflation. If the governments of France or Italy, for example, were to permit prices and exchange rates to find their own levels, they would soon be confronted with a sharp inflation similar in character to that witnessed in Germany and a number of other European countries at the end of World War I and in Hungary, Romania, and Greece at the end of World War II.

A further severe inflation would have adverse political effects throughout the countries affected. It would virtually wipe out the middle class. Holders of bonds and mortgages, beneficiaries of pensions, annuities, and life insurance would be ruined and this in turn could cause great social and political upheavals. Hence while theoretically at least, an argument could be made for letting economic forces take their own course, in reality such a policy would not only not achieve the expected results but also could lead to serious political consequences. It is therefore highly improbable that any of the countries confronted with the problem of stabilizing exchange rates would adopt the policy of permitting the exchanges to find their own level.

In analyzing the outlook for the pound sterling the bulletin states:

No Change in Sterling Rate Likely

An analysis of conditions in Great Britain leads to the conclusion that no change in the sterling rate is likely to take place in the immediate future. Fiscal conditions in Great Britain on the whole, are sound. The budget is balanced and the creation of new deposits through Treasury borrowing has come to an end. Foreign-exchange restrictions are likely to remain in force for an indefinite period, giving the government almost complete control over the types and quantities of commodities to be imported. A decline in the international value of the pound would not increase exports from Great Britain since the failure to develop exports more rapidly is not due to the fact that British commodities cannot compete in the world markets but rather to the shortage of commodities available for export. Depreciation of the pound would therefore not lead to an increase in exports which, in the existing sellers' market, are limited by production rather than by the price structure. Second, since Great Britain must import in large quantities from outside the sterling area many indispensable commodities, notably raw materials and foodstuffs, devaluation of the pound would result in an increase in prices of these commodities expressed in terms of the pound sterling. This would automatically lead to an increase in the cost of living followed by demands for higher wages, thus setting in motion the spiral between prices and wages. Within a relatively short time, therefore, the advantages, if any, that might be gained from a devaluation of the pound would be lost. It is, therefore, not to the interest of the British economy to decrease the international value of the pound.

Third, any change in the international value of the pound sterling would be bound to have far-reaching repercussions in the entire sterling area. The currencies of the member countries have remained stable in relation to the pound. A readjustment in the pound, therefore, could not be made without first taking into account its effects on the members of the sterling area. The sterling bloc has performed a very useful function in permitting the free conversion of the various currencies into one another and into the pound sterling, thus facilitating trade and capital movements among the member countries. Devaluation would affect adversely the sterling-area members holding large sterling balances in London. Finally, a further devaluation of the pound would deal a serious blow to the prestige of London as an international financial center.

Conditions of Devaluation

A devaluation of the pound sterling might be expected only under the following conditions:

(1) A decrease in prices of food and raw materials not accompanied by a corresponding decline in prices of manufactured goods. In that case, a devaluation of the pound sterling would stimulate exports of British commodities to countries whose national income was reduced as a result of the decline in prices of raw materials and foodstuffs. If the pound sterling were to remain unchanged under those conditions, it would become more difficult for agricultural and raw-materials producing countries to buy in Great Britain. Since the British economy depends to a large extent on exports, this obviously would not be to the interest of Great Britain.

(2) Devaluation would be feasible if, in the future when the sellers' market is replaced by a buyers' market, British industry should find it difficult to compete with the more efficient industries of the United States. Under those circumstances a devaluation of the pound, if not accompanied by an increase in wages and prices in Great Britain would render British commodities more competitive in the world's markets.

(3) Finally, the future movement of the pound sterling will depend to a large extent upon the movement of commodity prices in the United States. If prices in this country remain high and even continue to go higher, then the pound sterling may be undervalued and certainly no further devaluation will be needed. If, on the other hand, prices in the United States should decrease materially, then a change in the international value of the pound might be made for competitive reasons.

In considering the outlook for the Canadian dollar the bulletin concludes that the recently announced drastic measures to protect and improve the balance-of-payments position of Canada with the United States are an indication that Canada does not intend to devalue her currency in terms of the United States dollar.

Paul J. Herold Opens

Paul J. Herold has opened offices at 141 Broadway, New York City, to engage in the securities business. In the past he was an officer of John C. Adams & Co., Inc.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Nov. 30	96.3	97.0	97.0	62.8
Equivalent to—					
Steel ingots and castings produced (net tons)	Nov. 30	1,685,200	1,697,400	1,697,400	1,106,800
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Nov. 15	5,257,100	5,239,550	5,268,400	4,792,300
Crude runs to stills—daily average (bbls.)	Nov. 15	5,223,000	5,189,000	5,167,000	4,706,000
Gasoline output (bbls.)	Nov. 15	16,0[illegible]6,000	16,270,000	16,298,000	14,888,000
Kerosine output (bbls.)	Nov. 15	2,107,000	2,089,000	2,176,000	1,684,000
Gas oil and distillate fuel oil output (bbls.)	Nov. 15	6,159,000	6,256,000	6,217,000	5,622,000
Residual fuel oil output (bbls.)	Nov. 15	8,556,000	*8,650,000	8,542,000	7,692,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 15	83,041,000	82,007,000	80,912,000	88,108,000
Kerosine (bbls.) at	Nov. 15	21,473,000	22,593,000	22,516,000	21,854,000
Gas oil and distillate fuel oil (bbls.) at	Nov. 15	63,283,000	63,358,000	61,312,000	69,424,000
Residual fuel oil (bbls.) at	Nov. 15	57,827,000	57,172,000	57,776,000	60,186,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 15	878,237	910,160	954,249	917,124
Revenue freight rec'd from connections (number of cars)	Nov. 15	714,848	730,961	745,287	723,500
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Nov. 20	$100,930,000	$159,327,000	$141,719,000	$77,802,000
Private construction	Nov. 20	54,084,000	73,741,000	84,959,000	33,867,000
Public construction	Nov. 20	46,846,000	85,586,000	56,760,000	43,935,000
State and municipal	Nov. 20	42,655,000	64,537,000	50,306,000	27,108,000
Federal	Nov. 20	4,191,000	21,049,000	6,454,000	16,827,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 15	12,600,000	*12,810,000	12,645,000	12,643,000
Pennsylvania anthracite (tons)	Nov. 15	1,097,000	1,185,000	1,223,000	1,193,000
Beehive coke (tons)	Nov. 15	130,100	*141,200	133,100	118,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Nov. 15	380	347	299	342
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 22	5,180,496	5,084,340	4,963,816	4,764,718
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Nov. 20	79	84	81	24
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 18	3.18925c	3.18925c	3.18925c	2.70711c
Pig iron (per gross ton)	Nov. 18	$36.96	$37.06	$36.96	$28.1[illegible]
Scrap steel (per gross ton)	Nov. 18	$41.25	$41.50	$41.83	$19.1[illegible]
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Nov. 19	21.200c	21.200c	21.200c	17.275c
Export refinery at	Nov. 19	21.500c	21.425c	21.300c	17.425c
Straits tin (New York) at	Nov. 19	80.000c	80.000c	80.000c	70.000c
Lead (New York) at	Nov. 19	15.000c	15.000c	15.000c	11.800c
Lead (St. Louis) at	Nov. 19	14.800c	14.800c	14.800c	11.650c
Zinc (East St. Louis) at	Nov. 19	10.500c	10.500c	10.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 25	†101.89	†102.02	†103.14	†103.50
Average corporate	Nov. 25	112.19	112.56	113.89	116.41
Aaa	Nov. 25	117.00	117.60	118.80	121.04
Aa	Nov. 25	115.04	115.63	117.00	119.00
A	Nov. 25	112.37	112.75	113.70	116.02
Baa	Nov. 25	105.00	105.00	106.39	109.79
Railroad Group	Nov. 25	107.09	107.62	108.70	112.00
Public Utilities Group	Nov. 25	113.89	114.27	115.24	117.60
Industrials Group	Nov. 25	115.63	116.02	117.60	119.61
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 25	†2.37	†2.36	†2.29	†2.27
Average corporate	Nov. 25	3.05	3.03	2.96	2.83
Aaa	Nov. 25	2.80	2.77	2.71	2.60
Aa	Nov. 25	2.90	2.87	2.80	2.70
A	Nov. 25	3.04	3.02	2.97	2.85
Baa	Nov. 25	3.45	3.45	3.37	3.18
Railroad Group	Nov. 25	3.33	3.30	3.24	3.06
Public Utilities Group	Nov. 25	2.96	2.94	2.89	2.77
Industrials Group	Nov. 25	2.87	2.85	2.77	2.67
MOODY'S COMMODITY INDEX	Nov. 25	455.7	448.3	452.4	375.1
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Nov. 22	233.6	229.5	238.6	220.6
Fats and oils	Nov. 22	282.2	260.7	238.6	294.5
Farm products	Nov. 22	261.2	259.0	270.7	231.4
Cotton	Nov. 22	324.8	313.3	315.3	286.1
Grains	Nov. 22	304.5	300.3	308.3	207.9
Livestock	Nov. 22	245.1	245.2	261.3	236.1
Fuels	Nov. 22	198.2	198.2	195.0	157.0
Miscellaneous commodities	Nov. 22	177.9	175.4	173.0	163.1
Textiles	Nov. 22	221.1	218.6	217.6	204.4
Metals	Nov. 22	159.4	159.5	159.5	132.4
Building materials	Nov. 22	235.4	235.3	232.7	205.7
Chemicals and drugs	Nov. 22	157.1	157.1	154.5	145.9
Fertilizer materials	Nov. 22	136.7	136.4	135.5	122.4
Fertilizers	Nov. 22	139.4	*139.4	136.9	125.6
Farm machinery	Nov. 22	128.3	128.3	127.1	116.6
All groups combined	Nov. 22	215.9	214.3	217.2	191.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 15	154,639	222,903	162,060	138,100
Production (tons)	Nov. 15	182,686	185,873	185,868	170,411
Percentage of activity	Nov. 15	101	102	101	101
Unfilled orders (tons) at	Nov. 15	436,819	467,636	445,358	580,331
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Nov. 21	150.7	148.8	146.2	149.4
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Nov. 15	158.5	157.9	157.9	135.8
Farm products	Nov. 15	186.9	186.1	190.9	167.3
Foods	Nov. 15	178.0	176.3	178.5	164.1
Hides and leather products	Nov. 15	199.6	198.7	190.4	159.2
Textile products	Nov. 15	142.9	142.9	141.2	129.5
Fuel and lighting materials	Nov. 15	118.7	118.4	115.7	94.8
Metal and metal products	Nov. 15	151.3	151.3	151.1	116.3
Building materials	Nov. 15	185.3	185.2	184.0	140.4
Chemicals and allied products	Nov. 15	131.3	129.1	124.7	122.3
Housefurnishings goods	Nov. 15	133.5	133.4	132.7	117.6
Miscellaneous commodities	Nov. 15	118.1	117.9	116.5	104.6
Special groups—					
Raw materials	Nov. 15	175.8	175.2	176.0	152.6
Semi-manufactured articles	Nov. 15	155.4	155.2	152.4	125.9
Manufactured products	Nov. 15	151.7	151.0	151.1	130.4
All commodities other than farm products	Nov. 15	152.3	151.6	150.8	129.0
All commodities other than farm products and foods	Nov. 15	141.5	141.3	139.3	116.2

*Revised figure. †Figures are for taxable securities; previous figures given were for non-taxable securities.

	Latest Month	Previous Month	Year Ago
AMERICAN PETROLEUM INSTITUTE — Month of August:			
Total domestic production (bbls. of 42 gallons each)	171,619,000	*170,256,000	159,731,000
Domestic crude oil output (bbls.)	160,355,000	159,237,000	149,910,000
Natural gasoline output (bbls.)	11,204,000	10,969,000	9,671,000
Benzol output (bbls.)	50,000	50,000	150,000
Crude oil imports (bbls.)	8,242,000	7,294,000	8,29[illegible],000
Refined products imports (bbls.)	3,824,000	4,624,000	4,218,000
Indicated consumption — domestic and export (bbls.)	172,913,000	178,951,000	161,449,000
Increase—all stocks (bbls.)	10,773,000	3,223,000	10,796,000
AMERICAN TRUCKING ASSOCIATIONS — Month of September:			
Number of motor carriers reporting	274	*274	274
Volume of freight transported (tons)	2,675,324	*2,506,464	2,162,139
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. DEPT. OF LABOR—Month of Aug:			
All building construction	$561,195,000	$535,647,000	$424,653,000
New residential	301,292,000	272,997,000	263,847,000
New non-residential	177,842,000	168,799,000	92,199,000
Additions, alterations, etc.	82,000,000	94,000,000	69,000,000
Non-Federal—all building construction	533,537,000	529,577,000	350,754,000
New residential	299,564,000	272,669,000	194,962,000
New non-residential	153,626,000	166,618,000	92,188,000
Additions, alterations, etc.	80,000,000	90,000,000	64,000,000
Federal—all building construction	28,000,000	6,000,000	74,000,000
New residential	2,000,000	-------	69,000,000
New non-residential	24,000,000	2,000,000	-------
Additions, alterations, etc.	2,000,000	4,000,000	5,000,000
CONSUMERS PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES—1935-39=100—As of August 15:			
All items	160.3	158.4	144.1
All foods	196.5	193.1	171.2
Cereals and bakery products	155.7	155.0	135.4
Meats	228.4	220.2	136.6
Dairy Products	183.8	178.8	180.1
Eggs	212.3	203.0	173.6
Fruits and vegetables	199.8	202.0	178.3
Beverages	181.7	180.8	126.0
Fats and oils	178.5	182.0	180.3
Sugar and sweets	179.8	179.7	140.3
Clothing	185.9	184.7	161.3
Rent	111.2	110.0	108.7
Fuel, electricity and ice	123.8	119.5	113.7
Gas and electricity	92.0	91.7	91.8
Other fuels and ice	154.8	146.6	135.0
Housefurnishings	184.2	184.3	160.0
Miscellaneous	139.8	139.5	129.8
COPPER INSTITUTE — For month of Oct.:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	76,075	*85,675	72,807
Refined (tons of 2,000 lbs.)	108,169	92,088	77,947
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	112,202	95,582	136,481
Refined copper stocks at end of period (tons of 2,000 lbs.)	74,507	80,113	91,161
CROP PRODUCTION IN U. S. — U. S. DEPT. OF AGRICULTURE—Estimate as of Nov. 1: (000's omitted)			
Corn, all (bu.)	2,447,422	2,458,674	3,287,927
Wheat, all (bu.)	1,406,761	1,406,761	1,155,715
Winter (bu.)	1,095,648	1,095,648	873,893
All spring (bu.)	311,113	311,113	281,822
Durum (bu.)	43,017	43,017	35,836
Other spring (bu.)	268,096	268,096	245,986
Oats (bu.)	1,231,561	1,231,561	1,509,867
Barley (bu.)	284,497	284,497	263,350
Rye (bu.)	25,405	25,405	18,685
Buckwheat (bu.)	7,406	8,182	7,105
Flaxseed (bu.)	39,980	39,980	22,963
Rice (bu.)	76,982	76,718	71,520
Sorghums for grain (bu.)	85,950	85,696	106,737
Hay, all (ton)	101,804	101,804	100,860
Hay, wild (ton)	13,179	13,179	11,530
Hay, alfalfa (ton)	32,898	32,898	31,817
Hay, clover and timothy (ton)	33,271	33,271	34,330
Hay, lespedeza (ton)	6,503	6,503	7,182
Beans, dry edible (100 lb. bag)	16,828	16,314	15,797
Peas, dry field (100 lb. bag)	6,542	6,542	[illegible]
Soybeans for beans (bu.)	177,379	180,985	196,725
Peanuts (lb.)	2,125,265	2,102,260	2,036,430
Potatoes (bu.)	379,886	378,099	475,969
Sweetpotatoes (bu.)	58,316	59,208	66,807
Tobacco (lb.)	2,190,746	2,151,356	2,312,080
Sorgo sirup (gal.)	11,423	-------	12,074
Sugarcane for sugar & seed (ton)	5,459	5,743	5,997
Sugarcane sirup (gal.)	19,365	-------	24,450
Sugar beets (ton)	12,384	12,248	10,562
Broomcorn (ton)	32	32	44
Hops (lb.)	47,244	47,244	53,171
Apples, com'l crop (bu.)	112,503	112,910	11[illegible],410
Peaches (bu.)	83,857	83,857	86,6[illegible]
Pears (bu.)	35,350	35,048	34,447
Grapes (ton)	3,029	3,043	3,120
Cherries (12 States) (ton)	183	183	230
Apricots (3 States) (ton)	196	196	339
Cranberries (5 States) (bbl.)	756	743	887
Pecans (12 States) (lbs.)	104,271	100,206	76,706
LIFE INSURANCE PURCHASES—INSTITUTE OF LIFE INSURANCE—Month of October:			
Ordinary	$1,290,105,000	$1,104,368,000	$1,250,627,000
Industrial	365,805,000	325,896,000	347,220,000
Group	200,793,000	186,066,000	198,701,000
Total	$1,856,703,000	$1,616,330,000	$1,796,548,000
NEW YORK STOCK EXCHANGE— As of October 31:			
Members firms carrying margin accounts—			
Total of customers' net debit balances	$606,499,441	$569,697,227	$582,962,603
Credit extended to customers	78,693,671	77,703,728	74,598,933
Cash on hand and in banks in U. S.	383,207,689	395,582,858	497,902,645
Total of customers' free credit bal.	615,504,997	629,680,553	719,772,119
Market value of listed shares	68,883,690,210	67,521,963,215	66,114,906,579
Market value of listed bonds	138,336,333,665	140,498,941,444	140,245,279,977
Stock price index, 12-31-24=100	78.7%	77.5%	79.3%
Member borrowings on U. S. Govt. issues	$110,338,768	$138,969,392	$159,965,099
Member borrowings on other collateral	221,106,139	*238,602,893	210,593,66[illegible]
REAL ESTATE FINANCING IN NON-FARM AREAS OF U. S. — HOME LOAN BANK BOARD—Month of September:			
Savings and Loan Associations	$322,339,000	$315,305,000	-------
Insurance companies	76,942,000	70,277,000	-------
Bank and Trust Companies	255,349,000	250,612,000	-------
Mutual Savings banks	55,097,000	51,378,000	-------
Individuals	171,938,000	165,781,000	-------
Miscellaneous lending institutions	140,983,000	135,093,000	-------
Total	$1,022,648,000	$988,446,000	-------

Administration Anti-Inflation Program

(Continued from page 2)

completely under the jurisdiction of the Treasury Department, and I shall devote my time principally to a discussion of that particular item. I shall touch but briefly upon the remaining three as they are primarily the concern of other government departments and are being discussed by representatives of those departments as they appear and testify.

Item one, "restoration of consumer credit controls," will be discussed by Federal Reserve officials. I am in favor of the restoration of those controls.

Consumer Credit Control

The most effective types of credit control are those which strike at the individual forms of credit extension which are contributing to inflationary pressures. The most important single form of such credit extension at the present time is in consumer credit.

Total consumer credit outstanding at the end of September reached an all-time peak of $11,400,000,000. At the end of 1945, it amounted to only $6,600,000,000. Prior to December, 1946, total consumer loans outstanding at any one time had never reached the $10,000,000,000 level.

This increased use of consumer credit in the present period of inflationary pressures can only add to those pressures. As we all know, the curtailment of the production of consumer goods during the war period gave rise to a tremendous deferred demand for such goods. As we all know, despite the fact that industrial production during 1947 has reached the highest level ever attained during peacetime, we have not yet been able to produce enough goods to satisfy this deferred demand. There still exist many important shortages of goods. But with production near capacity levels, purchasing power made available by consumer loans can be used only to bid up prices of consumers' goods, not to purchase more goods. It is imperative, therefore, that efforts be made to restrain the demand for scarce goods until supply approaches demand.

Money market interest rates form a small part of the total cost of consumer credit, and changes in such rates are almost powerless to limit its extension. It is necessary to cover specifically by regulation such matters as minimum down payments and the maximum periods over which payments may be spread on installment purchases of consumers' goods in order to restrain this type of inflationary credit.

In reference to the matter listed under item two, "some restraint should be placed on inflationary bank credit," this is a matter under the jurisdiction of the Board of Governors of the Federal Reserve System which has responsibility for overall bank credit control. However, the Treasury Department, due to its responsibility on debt management, has been actively studying this field for some time. Some of the Treasury activities in this connection cover debt management, interest rate adjustments, and study and recommendations regarding bank credit trends.

Management of Public Debt

I must point out here, that the Treasury must continually measure the effects of bank credit controls against the problems of debt management. The management of the public debt since the close of the war has presented a continuing problem.

The public debt reached its peak of $280 billion on Feb. 28, 1946. During the following 10 months, it was reduced over $20 billion, reflecting the reduction in the cash balance in the Treasury from a wartime to a peacetime level. Almost all of the reduction in the debt during this period took place in the holdings of government securities by commercial and Federal Reserve Banks. Since the end of 1946, the debt has remained substantially constant, reflecting the approximate balance of the budget during this period. Holdings of Federal debt by commercial and Federal Reserve Banks have nevertheless continued to be reduced and fell by over $6 billion in the first 10 months of the year, with holdings by nonbank investors increasing correspondingly.

The concentration of debt reduction during 1946 on securities held by banks and the transfer of over $6 billion of debt thus far in 1947 from bank to nonbank hands have been, in large part, the consequence of the public debt policies of the Treasury and of the restrictive credit policies of the Federal Reserve System. These policies have contributed substantially to the fight against inflation, and will be continued as long as they are appropriate. I should like to note in this conection that a sizable reduction in the public debt will be possible during the early months of 1948 — during which months will occur most of the excess of government receipts over government expenditures predicted for the entire fiscal year.

To minimize bank credit expansion, restrictive measures have been applied to the money market by the Federal Reserve System and the Treasury. This has been reflected by a rise in interest rates and a better balance between short and long-term rates.

The average rate on 90 day Treasury bills has increased from ⅜ of 1% in early July to nearly 1% a the present time; while the rate on one-year Treasury certificates of indebtedness has risen from ⅞ of 1% to 1⅛% in the same period. During this time the yield on the longest-term Treasury bonds—those issued in the Victory Loan — has risen from a little over 2.30% to about 2.43%.

The entire debt management policies of the Treasury since February, 1946 have been of an anti-inflationary character. First, there was the paying off of bank-held government debt out of excess cash balances; second, there has been a payment on bank-held debt out of funds derived from (a) budget surplus, (b) trust funds, and (c) the sale of savings and investment bonds to the public; third, pressure on the money market with slightly higher interest rates. Through the payment and calling of maturing bonds and refunding them into short term issues, it has been possible to create an interest pressure on the money market without an increase in the net cost of the market debt to the government.

In making our decisions with respect to public debt management, we must constantly weigh the restrictive effect of any proposed debt management action against its cost in added interest burden on the taxpayer. An increase of ½ of 1% in the average cost of carrying the public debt, for example, would mean an added burden of $1¼ billion a year on the taxpayer.

At the present time, as you know, the interest cost on our public debt amounts to more than $5 billion per annum. This is a large figure and may increase in the future if a larger proportion of our debt is carried in longer-term securities requiring higher coupon rates of interest. It is, therefore, imperative that during these times of great prosperity we should continue to collect adequate revenues over and above a balanced budget to provide for a systematic reduction of the debt total. A reduction in the debt through a substantial budget surplus is the most anti-inflationary measure that can be taken in the fiscal field.

Commercial Bank Credits

In the field of commercial bank loan credits, the Treasury Department, through the Comptroller of the Currency, has been very active in studying trends and taking steps to induce a restraint in inflationary bank loans.

A few weeks ago, we had the District Chief National Bank Examiners in for a conference, at which time the credit situation was discussed at some length. The Chief Examiners were instructed to have their examiners, during the course of examination of banks, counsel with and caution bankers against speculative lending policies.

More recently, the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Executive Committee of the National Association of Supervisors of State Banks have collectively taken steps to urge the curtailment of all loans either to individuals or businesses for speculation in real estate, commodities, or securities. In a joint statement issued this morning by these agencies all bankers are urged to confine the current extension of bank credit to the greatest extent possible under existing conditions to financing that will help production rather than increasing consumer demand.

Item 3, Secretary Anderson of the Department of Agriculture will present testimony on legislation that should be provided to prevent excessive speculation on the commodity exchanges.

Intensification of Savings Bond Drive

Item 4 makes recommendations for the intensification of activity of savings bond sales as an anti-inflationary action.

As the President said in his message of Nov. 17:

"Another effective weapon against inflation is increased savings by the public. Every dollar that is saved instead of spent is a dollar fighting against inflation. In order to encourage additional savings, the Government should intensify its vigorous efforts to sell savings bonds."

Since the war, as an economy measure, the Treasury Department has curtailed enormously the organization of the savings bonds division, and has resorted primarily to those programs for which the voluntary cooperation of individuals and businesses could be recruited. While this procedure has been eminently successful and has produced most satisfactory results in maintaining bond sales in excess of bond redemptions, it still has its limitations.

Up to now the day-to-day efforts of the Treasury savings bond sales organization has been to maintain the popularity of the payroll savings plan among American workers and to sell to the American people the idea of investing regularly for their own good. This program has formed an important part in the Treasury's fiscal policy.

During the war it was obvious to people why we needed the savings bond program. Everyone could see that the Government needed dollars — over and above taxes—to buy munitions and pay wages and subsistence for our armed forces. Each of us had someone—son, daughter, brother, sister, loved one—in service and therefore had a direct interest. And, in addition, everyone could understand that savings bonds helped to absorb inflationary dollars which were accumulating at a rapid rate because incomes were growing while goods and services available for purchase were not increasing accordingly due to the fact that war goods were using up materials and labor.

But now that the war is over many people do not understand the importance of the savings bond program today.

The savings bond program absorbs excessive purchasing power in the hands of individuals. This cuts down spending pressures. For this reason, emphasis is being placed—and will continue to be placed—on the payroll savings plan for workers and on bond programs for individuals, and especially farmers. The important funds to obtain are the small amounts invested regularly by millions and millions of people. It is the money which is more likely to go on a spending spree that is the most important to get invested in savings. The investor we want most is the individual—the worker with good income and the farmer whose income is at a high level.

Bond sales of this character are important from a fiscal point of view even if we have a balanced budget, for they widen the ownership of the debt and provide a sounder debt structure. At the same time the sale of these savings bonds makes an important contribution to the control of inflationary pressures.

It withdraws funds in the hands of the individual from the spending stream thus providing funds which enables the Treasury to retire bank held debt. This in turn results in a reduction of the money supply in the economy.

In order to increase the sale of United States Savings Bonds however, we have an intensive selling job to do.

The Treasury Department is ready to move right away on an enlarged savings bond sales activity. But this increased sales activity will require additional funds over those earmarked for this purpose in the budget for fiscal 1948. We are therefore asking the Congress to give approval to the use of additional funds for the savings bond program over and above those approved in the budget.

The present greatly reduced staff in Washington and in the field can be expanded immediately. With additional personnel and funds for promotion, the number of purchasers on payroll savings plans can be greatly increased and the sales of savings bonds materially multiplied.

Incidentally, I think that you would be interested to know that total sales of savings bonds are continuing to exceed redemptions and the volume outstanding has reached a new high—nearly $52 billion. In E bonds alone there are $30,894,000,000 outstanding; this volume is today within one-quarter of 1% of the peak volume of E bonds outstanding at the close of the Victory Loan nearly two years ago. We have been able in other words, to increase the savings bond total and to sustain the volume of E bonds outstanding throughout this period of postwar readjustment.

This has been a tremendous accomplishment. There were those you remember, who predicted that the termination of the war would be followed by wholesale cashing of savings bonds and the liquidation of much of the effect of the wartime savings bond sales effort. The truth is that this just didn't happen. The redemption record of United States savings bonds is a cause for considerable gratification for all of us. It is a tribute to the people who sold the bonds during the war and to the people who purchased them. I am confident that with the additional effort that will be provided by additional funds, good results can be obtained.

Ernst Nash Opens

Ernst Nash is engaging in a securities business from offices at 420 Riverside Drive, New York City.

Forecasts 2,000,000 Television Sets By 1950

Speaking at a television seminar of the Radio Executives Club at the Roosevelt Hotel in New York City on Nov. 13, Frank E. Mullen, Executive Vice-President of the National Broadcasting Co., painted a glowing picture of the future of the industry.

Frank E. Mullen

"On March 1 1944," Mr. Mullen stated, "NBC announced its plans for a nation-wide television network which we then forecast would span the continent probably by 1950. Today that date looks pretty good because we anticipate that by two years from now we will have pictures from New York to Hollywood, and possibly from Hollywood to New York. Before the end of 1948 we expect our network to bring television programs to a population in excess of 22 million people. Within another year or 18 months another 20 million people living east of the Mississippi will have network television programs available to them. The network serving the eastern seaboard cities only will, by the end of 1949, according to our best estimate, have at least a million and a half television receivers. On Dec. 31, 1949, there should be at least 2 million sets in the entire area above a line drawn on your map from Washington, D. C., to St. Louis."

Continuing, Mr. Mullen stated:

"When these totals have been realized television will have become one of the most potent influences in the nation. Adding sight to sound will provide a service to the home and an advertising medium of great potentialities. Television will truly become one of the greatest communication forces in American life. You here in this audience will have an opportunity to experience this television impact on our national life when you see the telecasts of the Republican and Democratic Conventions in Philadelphia next summer.

"A net work television service has been launched after many delays and it is my belief that in a very few years we will have television coverage of the majority of American homes.

"Ladies and gentlemen, I wonder if all of you who have come here to attend this session of a television seminar, realize that you are witnessing and participating in one of the greatest industrial expansions that this nation has known.

"After World War I we saw the radio industry brought into being and expanded into a business which today accounts for more than a billion and a half dollars to the American economy. Television should prove to be at least four times as great. In other words, within a short span of time we can expect the television industry to give employment to an additional 250,000 men and women. It will of itself in telecasting and manufacturing be a $6 billion business, but more important still, by its very nature, it will provide impetus to our whole industrial machine for it has the capacity as an advertising medium for stimulating, in a fashion never before realized, the merchandising and hence the manufacturing of products."

"The Forgotten Production"

(Continued from page 10)

nerve center of today's pressing economic problems, when his message said:

"To expand industrial output, we need a long-range program to overcome basic shortages in capacity and equipment."

Certainly, Mr. President and citizens, we need a "long-range program." Yet how long away can "long-range" be? We need action right now . . . Action tomorrow by Administration chiefs in Washington . . . Action by industrialists to obtain and operate idle existing facilities, and immediate measures to expand their plants . . . Action tomorrow and every day to gear up this country to full production and to supplying wants of customers.

When the way to lick shortages and ever-rising prices is to increase manufacturing facilities and production, there can be no excuse for dilly-dallying and ducking this fundamental issue.

There literally are scores, if not hundreds of actions, that can be taken—not on some far-off program—but forthwith. Now I'm sure I'm talking the language of "The Little Flower," because he never could tolerate the evasive, put-it-off, confused boys who beat around the bush and failed to smash right to the heart of a problem.

Here are a few lines of attack: Steel—Our factories still are being hamstrung by lack of enough steel production. This steel famine can get much worse before it gets better, because we must divide some of our critically needed steel in order to help save people of other lands from ruin. There is no end even in sight to shortages.

As you know, there is a Kaiser Fontana steel plant in California. Not only the West Coast, but the whole country needs to see this Fontana plant expanded at the earliest possible moment to produce sheet steel and other products needed not only now—but permanently.

Well, I announced a plan to expand Fontana and to produce sheet steel there—the kind used for making refrigerators, stoves, automobile bodies and scores of products. Only four days after we announced the plan to expand Fontana, the United States Steel Corporation said it was planning to build a sheet rolling mill at Los Angeles.

The only way to prevent concentration of economic power is to stimulate competition. The government has the power and duty to support real competition.

Immediate action is called for on the shortage of steel for pipelines, because great projected pipelines are held up by lack of steel. This, in turn, causes shortages of natural gas needed to keep industries running and growing.

The shortage of iron and steel scrap, as you know from your newspapers, is highly critical, thereby forcing high prices. To correct it requires the Maritime Commission, War Assets Administration, Army and Navy to sell to industry all the metal junk and surpluses possible, in order to produce the scrap that's so essential today to make more steel.

I can report from conferences with John Steelman, assistant to the President, that Mr. Steelman is taking determined and extremely effective, direct White House action, and is forcing more useless, surplus ships to be made available for the production of desperately needed scrap.

Reports to the magazine "Steel" assert that the War Assets Administration could pour into industrial production four million tons of scrap in a few months. Only day before yesterday, Mr. Steelman and the newly-appointed War Assets Administrator—Jess Larson—thrilled me when they declared how vigorously they intend to wage an all-out drive to release government scrap. I can assure steel-users that Mr. Larson will leave no stone unturned, and industrialists now should help him uncover all the potential scrap they can locate in their different areas. This will make millions for the taxpayers from government scrap-piles.

One long-standing labor-management deadlock is depriving the country of upwards of three million tons a year of high quality metallurgical coal. Three West Virginia mines closed July 1st in a dispute with 2,200 miners. During almost five months of shut-down, industry has lost hundreds of thousands of tons of coal. That's tragic. The government should do all possible to bring about a speedy settlement and to start up production. Think of the immediate possibilities of using hundreds of thousands of tons of coal to make coke—to make pig iron, which is one of our critical shortages today.

Aluminum Output Insufficient

Aluminum capacity now is five to six times pre-war levels. Yet aluminum is completely over-sold. The aluminum shortage hurts nearly every type of industry. Before we can increase output of aluminum, we must develop more hydro-electric power. One-sixth of our aluminum plant at Spokane is shut down now—for lack of electric power. Skeptics said the Pacific Northwest would "have power to burn" after the war. But instead, the available hydro-electric power—not only of the Northwest but of all California—is being overtaxed. We must produce more kilowatts across the country, in order to produce more goods in every field.

Food Situation

Now take the food situation: The President said: "We need a comprehensive farm program." I trust the word "comprehensive" doesn't mean that action is to be put off into the distant future. Again, there are several measures—just as we found the way during the war—that can be taken at once to raise food production.

This nation can't forever talk of dividing up the scarcities we have—splitting with this industry and that, and not getting enough to increase production and stabilize prices . . . Splitting up with stricken peoples around the world—and we must do this, even though we don't have enough for ourselves right now . . .

The advocates of a scarcity economy would keep us on the ragged edge of shortages endlessly. We simply must make more basic materials.

Let's stop talking about more production. Let's get more production.

The Administration and Congress will have to reject the "let's wait and see" boys and the "it shouldn't be done" crowd.

A Peacetime Pearl Harbor

When we were hit at Pearl Harbor, the people knew we had to do a terrific job in expanding and producing. We went all-out to do that job. Now we face a Pearl Harbor of peace-time. Once more, industry and government can act—and fast.

The least we can do is to get existing plants into immediate full production.

When there's a steady flow of materials, assembly lines won't constantly be interrupted for lack of one part or another. Then you'll find the record of workers' productivity rising. And that will be tremendously important, because a worker's job and his wage dollar are only safe and valuable when he is producing efficiently. We are being hit below the belt—or I should say smack in the pocketbook—by shortages.

How can the government stimulate industry to increase production facilities? The same way it did in war. It worked then. A tax incentive system was set up to encourage companies to expand their plants and equipment for war production. The Act allowed management to claim income tax exemption for depreciation of new plant facilities at the accelerated rate of roughly 20 to 25% a year, instead of the peace-time rate of only 4%. This brought about a gigantic expansion.

This same stimulation is needed now, in order to encourage and safeguard industries making the expansions that are so necessary. In fact, tax laws should be reformed permanently in such a way as to encourage the small businessman and risk-taker to go ahead into new ventures that will build an ever more flourishing economy. This would mean more and better things for you to buy—and cheaper.

Mr. LaGuardia always was standing up for the "forgotten man."

But who now is thinking about the *forgotten production?* The forgotten, neglected, kicked-around, but fundamental problem is to increase production—and without further delay.

Let's not soft-pedal that the real issue is to expand plants.

Instead of spending all the time on dosing up the patient, won't Congress and the Administration do something—yes tomorrow and all week—to tackle the task after task than can be solved at once.

Let's really act in the spirit of that Bible quotation that says:

"So we built the wall . . . for the people had a mind to work."

New Anglo-Swedish Monetary Pact

Provides for gold settlements if balances against one another exceed £8 million.

According to a special despatch from London to the New York "Times" dated Nov. 25, a new bilateral monetary agreement was signed between Great Britain and Sweden under which, until end of 1949, the central banks of both countries will settle their balances in their respective currencies up to £8,000,000, and above that sum balances will be settled in gold. According to the "Times," the pact, in effect "provides a cushion for either side in event of an adverse balance of trade. Both nations presumably will endeavor to balance their transactions to avoid contracting a gold liability."

The agreement, it is stated, was made necessary when Britain was compelled last summer to abandon her commitment under the American loan to convert current sterling balances into dollars.

Griffith With Dunbar Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Harry E. Griffith has become associated with John B. Dunbar & Co., 634 South Spring Street. He was formerly with Livingstone & Co. and Searl-Merrick Co.

With M. E. Herndon Co.

(Special to THE FINANCIAL CHRONICLE)

ASHEVILLE, N. C. — G. A. Herndon has become associated with M. E. Herndon Co., 117 East Third Street, Charlotte, N. C. He was formerly Asheville representative for R. S. Dickson & Co.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

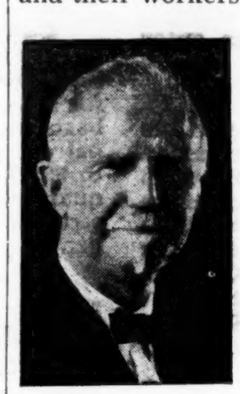
WINSTON-SALEM, N. C. — Charles J. Tucker is with Merrill Lynch, Pierce, Fenner & Beane, R. J. Reynolds Building.

The Russian Menace

By ROGER W. BABSON

Holding there can be no peace between democracy and dictatorship, Mr. Babson sounds alarm regarding revival of Third International, and calls upon businessmen to take action and recapture American youth's enthusiasm for our democratic way of life.

The revival of the Third International should rouse every thinking American to action. Action of what kind? And against what and whom? This is the most important problem facing both employers and their workers today—far more important than prices or wages.



Roger Babson

The Russian leaders are wiser than we want to admit. They have studied people, conflict, and revolutions. Their moves are calculated like those of the expert chess player to make us use our own strength to destroy ourselves. The Communist knows that the idea of a bridge is more important than the bridge. It may be easy to destroy the bridge and very difficult to rebuild the bridge if you lose the idea. Therefore, reason the Communists, let us try to destroy the idea of democracy. Since ideas tend to be perpetuated by intellectuals, colleges, schools, the press, and the like, Communism has made a point of successful infiltration into these ranks.

American businessmen, on the other hand, have too often forgotten the school, church, press, and radio in their plans. They have sometimes failed to realize, as the Russians have realized that the idea of their very freedom of enterprise is in a great measure intrusted to be imparted in classrooms, on the screen, and through radio. The newspapers have their feet on the ground and can be trusted; but some of the other groups are now going wild in their race for votes, money or circulation.

Let Us Not Kid Ourselves

Communism most certainly has dual goals of (a) building up a strong defense within, through the cultivation and development of natural resources, and (b) building a subtly strong offensive of party members in the western hemisphere who, like termites, bore away under cover.

Let's stop kidding ourselves. There can be no peace between democracy and dictatorship. Sooner or later the one or the other will be annihilated. The course of the world might have been different had we acted when Japan walked into Manchuria or when Mussolini raped Ethiopia. The world will be markedly different if we do not soon awaken to history's object lessons.

Democracy Must Recapture Its Youth

Communism is fired with a highly combustible and destructive fanaticism. Has democracy, on the other hand, become too passive and too contended? There seems to be no longer the urge to win souls. Where, today, in this great country of ours is there real enthusiasm for democracy? It just does not seem to exist.

Our democratic way of life, purchased and hallowed for us by sweat and blood, was once also fired with passion and enthusiasm. Today, too often our way of life is taken for granted. It, therefore, now must become the obvious challenge to every businessman to rekindle that spirit and enthusiasm. This especially applies to members of school committees, of boards of directors, and those on the production line, at home, and in the church.

Conclusion

I am reminded of Jesus' parable of the talents. Democracy is a sacred talent. "To him that hath, it shall be given. To him that hath not, even that which he hath shall be taken away."

Business Man's Bookshelf

Capital Goods Industries and Tax Reform—Machinery and Allied Products Institute, 120 South La Salle Street, Chicago 3, Ill.—paper—25¢ per copy (lower rate for quantity orders)

Crowell-Collier Automobile Survey No. 11—Market for new cars; price problem; dealer-customer relations; new car financing; repair and service data — Crowell-Collier Publishing Company, Inc., 250 Park Ave., New York 17, N. Y.—paper

Major Problems of United States Foreign Policy 1947 — A Study Guide—The Brookings Institution, Washington 6, D. C.—paper—$1.50.

Small Businessman and His Bank, The—Explanation of basic banking policies and the requirements that govern the granting of business loans—U. S. Department of Commerce—U. S. Government Printing Office, Washington 25, D. C.—paper—10¢

Successful Investing Formulas—Lucile Tomlinson—Barron's Book Department, 30 Kilby Street, Boston 1, Mass.—cloth—$3.00

Transportation in America — Final report of the Railroad Committee—Association of American Railroads, Transportation Building, Washington 7, D. C.—paper

Trends in Output and Employment—George J. Stigler—National Bureau of Economic Research, Inc., 1819 Broadway, New York 23, N. Y.—cloth—$1.00.

Will Dollars Save the World?—Henry Hazlitt — Foundation for Economic Education, Inc., Irvington-on-Hudson, New York—paper—75¢—lower rate on quantity orders.

Your Newspaper—Blueprint for a Better Press—by Nine Nieman Fellows, Leon Svirsky, Editor — The Macmillan Company, 60 Fifth Avenue, New York, N. Y.—cloth—$2.75

With Livingston Williams

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Edward L. Knight has been added to the staff of Livingston, Williams & Co., Inc., Hanna Building.

Hunter, Prugh, Ball Adds

(Special to THE FINANCIAL CHRONICLE)

DAYTON, OHIO — Hunter, Prugh, Ball & Davidson Winters Bank Building, have added Harry C. Conway to their staff.

With Equitable Securities

(Special to THE FINANCIAL CHRONICLE)

NASHVILLE, TENN. — Gus G. Halliburton is with Equitable Securities Corporation, 322 Union Street.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

American Bankers Insurance Co. of Florida, Miami.
Nov. 3 (letter of notification) 2,500 shares of class A (par $10) common, 5,000 shares ($10 par) class B common, and 11,250 shares 8% ($10 par) cumulative preferred. **Price**—$240 per unit, consisting of 2 shares of class A, 4 shares of class B and 9 shares of preferred. No underwriting. For capitalization of company to enter into stock fire insurance business.

Americana Furniture, Inc. (12/2-3)
Oct. 23 filed 100,000 shares of 6% cumulative convertible preferred (par $5) and 100,000 shares (10¢ par) common and an additional 285,000 shares common issuable upon conversion of preferred and exercise of 35,000 common stock warrants to be sold to underwriters. **Underwriters**—Gearhart & Co., Inc., New York; Herbert W. Schaefer & Co., Baltimore, Md., and Comstock & Co., Chicago. **Offering**—To be offered publicly in units of one share of preferred and one share of common. **Price**—$5.10 per unit. **Proceeds**—To finance completion of its factory and for working capital.

American Insurance Co., Newark, N. J. (12/19)
Nov. 14 filed 662,504 shares of capital stock (par $2.50). **Underwriter**—The First Boston Corp. **Offering**—To be offered for subscription by stockholders of record Dec. 5 on basis of one new share for each two shares held. Rights expire Dec. 18. Price by amendment. Unsubscribed shares to be publicly offered by underwriters. **Proceeds**—To be used for capital funds.

• American & Overseas Development Corp., N. Y.
Nov. 18 (letter of notification) $125,000 5-year 5% convertible subordinate debentures. **Price**—Par. **Underwriting**—None. Working capital and day-to-day operating expenses.

American Steel & Pump Corp., New York
Oct. 31 filed 100,000 shares ($1 par) common. Underwriting to be filed by amendment. Price by amendment. **Proceeds**—To pay off indebtedness incurred in the acquisition of the capital stock of A. D. Cook, Inc., Lawrenceburg, Ind.

Appalachian Electric Power Co. (12/2)
Oct. 29 filed $28,000,000 first mortgage bonds, due 1977, and 75,000 shares of cumulative preferred. **Underwriting**—The bonds will be offered at competitive bidding. Probable bidders: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc.; Glore, Forgan & Co. Sale of preferred will be negotiated. Probable underwriters: The First Boston Corp. and Union Savings Corp. (jointly). **Offering**—New preferred will be offered to holders of record Nov. 24 of outstanding 4½% cumulative preferred on the basis of one new share for each four shares held. **Proceeds**—For retirement of debt and partial financing of new construction. **Bids**—Bids for purchase of bonds will be received up to 11:30 a.m. (EST) Dec. 2, at 30 Church Street, New York.

Associated Telephone Co., Ltd.
Oct. 16 filed 150,000 shares of cumulative preferred stock (par $20). No bids submitted Nov. 12 for preferred stock. **Proceeds**—To reimburse treasury for capital expenditures. Statement became effective Oct. 31.

• Bethesda Country Club, Inc., Bethesda, Md.
Nov. 19 (letter of notification) $150,000 2% debenture bonds. **Price** — $300 per bond to charter members of club. No underwriting. To purchase club house and equipment.

Brown & Bigelow, St. Paul, Minn.
Nov. 19 filed 1,038,207 shares of common stock (after split-up of 10-for-1). **Underwriter**—Otis & Co., Cleveland. **Proceeds**—874,562 shares of stock are being sold by Charles A. Ward and other stockholders who will receive the proceeds, and 163,645 shares are to be issued in exchange for outstanding shares of Quality Park Box Co., Inc.; Consolidated Printing Ink Co., and John Beissel Co. **Price**—$9.50 per share.

Callahan Zinc-Lead Co., New York
Nov. 13 (letter of notification) 3,500 shares ($1 par) common, being sold by H. B. Van Sinderen, of Washington, Conn., and 3,700 shares of common being sold by Harrison White, Inc., of New York. To be sold at market. No underwriting.

Callaway Mills, LaGrange, Ga.
Aug. 28 filed 123,306 shares (no par) common. **Underwriting**—No underwriting. **Offering** — Shares will be offered only to those stockholders who exchanged their holdings of common for preferred in 1945. **Price**—$35 a share. **Proceeds**—For corporate purposes.

Central Cooperative Wholesale, Superior, Wis.
Oct. 13 filed $750,000 of preferred stock. No underwriting. **Offering**—A portion of the stock will be offered for conversion of outstanding notes, on a dollar for dollar basis, and the balance will be offered to members and patrons eligible to become members. **Price**—From $25 to $25.75 from January to December, depending on the quarter in which the stock is sold. **Proceeds**—For construction of warehouse, expansion of inventories, and property additions.

Central Maine Power Co. (12/8)
Nov .10 filed $4,000,000 first and general mortgage bonds, series P, due 1977, and 160,000 shares ($10 par) common. **Underwriting**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Halsey, Stuart & Co. Inc. (bonds only); Harriman Ripley & Co.; The First Boston Corp. and Coffin & Burr (jointly); Shields & Co. **Offering**—The bonds will be offered publicly while the common will be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share held and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—For construction and repayment of bank loans. Bids expected about Dec. 8.

• Central Power & Light Co. (12/8)
Nov. 21 filed $6,000,000 first mortgage bonds, series B, due 1977; and 40,000 shares ($100 par) cumulative preferred. Underwriting to be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp., Blyth & Co. and Harriman Ripley & Co. and Smith, Barney & Co. (jointly); Lehman Brothers and Glore, Forgan & Co. (jointly). **Price**—By competitive bidding. **Proceeds**—For property additions and expenses. **Business**—Public utility. **Bids**—Bids for purchase of securities tentatively set for Dec. 8.

Century Steel Corp., Hollydale, Calif.
Nov. 10 filed 4,000 shares ($100 par) common. No underwriting. **Price**—$100 a share. **Proceeds**—To purchase rolling mill, equipment and for working capital. **Business**—To produce steel in Los Angeles County.

Cessna Aircraft Co., Wichita, Kansas
Nov. 3 (letter of notification) 25,000 shares ($1 par) common, being offered by D. L. Wallace, President of the company. To be sold at market through Dempsey-Tegeler and Co., Los Angeles.

Cleveland (Ohio) Electric Illuminating Co.
Sept. 26 filed 254,989 shares (no par) preferred, series of 1947. **Underwriter** — Dillon, Read & Co., New York. **Offering**—To be offered share for share plus a cash adjustment for outstanding $4.50 preferred. Unexchanged shares of new preferred will be sold publicly. Price by amendment. **Proceeds**—To retire unexchanged shares of old preferred. Offering indefinitely postponed.

Cleveland Electric Illuminating Co. (12/9)
Nov. 12 filed $20,000,000 35-year first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders include: Blyth & Co.; Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Dillon, Read & Co. Inc.; The First Boston Corp.—**Proceeds**—For construction program. **Bids** for purchase of bonds tentatively set for Dec. 9.

Consumers Cooperative Assoc., Kansas City, Missouri
Oct. 16 filed $1,000,000 4% non-cumulative common stock ($25 par); $4,000,000 of 3½% certificates of indebtedness cumulative; and $1,000,000 of 1½% loan certificates cumulative. No underwriting. **Offering**—To the public. Common may be bought only by patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities.

• Continental Car-Na-Var Corp., Brazil, Ind.
Nov. 19 (letter of notification) 35,000 shares ($1 par) common. To be offered at approximately $3 per unit. No underwriting. For additional working capital.

• Cooperative Broadcasting Association, Washington, D. C.
Nov. 21 (letter of notification) 492 shares ($100 par) common and 10,906 shares ($10 par) preferred. To be sold at par. No underwriting. To erect and equip radio station and for working capital.

Delaware Power & Light Co. (12/9)
Nov. 7 filed $10,000,000 1st mtge. coll. trust bonds, due 1977. **Underwriters**—To be sold at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp., and Blyth & Co., Inc. (jointly); Morgan Stanley & Co.; Lehman Brothers. Proceeds would be used in connection with the company's construction program which involves an outlay of over $30,000,000 of additional generating, transmission and distribution facilities up to the end of 1949. **Bids** for purchase of bonds tentatively set for Dec. 9.

Denver-Rangely Oil Interests, Inc., Denver, Colorado
Oct. 27 (letter of notification) 500,000 shares (10¢ par) stock. **Price**—7½ cents a share. **Underwriter** — H. J. Newton and A. B. Kamp & Co., both of Denver. To purchase oil and gas leases and drill test well.

Dogpaw Gold Mines Ltd., Toronto
Oct. 22 filed 1,000,000 shares ($1 par) capital stock. **Underwriter**—Tellier & Co. **Price**—40¢ per share. **Proceeds**—To develop mining properties in Flint Lake locality of Ontario.

Doughboy Bottling Co., Pittsburgh, Pa.
Oct. 24 (letter of notification) 50,000 shares of 6% preferred ($5 par). **Price**—$5.75 a share. **Underwriter**—McLaughlin, MacAfee & Co., Pittsburgh, to acquire and equip a bottling plant.

East Utah Mining Co., Salt Lake City
Oct. 27 filed 1,075,000 shares (10¢ par) common. **Underwriter**—F. Eberstadt & Co., New York. **Offering**—Offered to common stockholders of record Nov. 20 on basis of one new share for each two shares held. Rights expire 3 p.m. (MST) Dec. 18. **Price**—30¢ per share. Three stockholders have agreed to exercise rights to subscribe for 368,533 shares for investment. Unsubscribed shares to underwriters, who will offer ⅔rds of unsubscribed shares to Newmont Mining Corp. and Olin Industries Inc. at 30¢ per share. **Proceeds**—To develop mining properties in Wasatch County, Utah.

Electric Steam Sterlizing Co., Inc., N. Y.
Sept. 22 (letter of notification) 65,000 shares of common stock (par 10¢). **Price**—65 cents per share. **Underwriter**—Reich & Co., New York. Purchase of inventory, etc.

• Elliott Co., Jeannette, Pa. (12/11)
Nov. 20 filed 60,000 shares ($50 par) 5% convertible cumulative preference stock. **Underwriter**—F. Eberstadt & Co., Inc., New York. Price by amendment. **Proceeds**—For construction and expansion program. **Business**—Manufacture of steam turbines and electric generators and motors.

Empire Projector Corp., New York
Aug. 21 (letter of notification) 80,000 shares ($1 par) common on behalf of the company, and 15,000 shares ($1 par) common on behalf of officers and stockholders. The 80,000 shares will be sold at $3 a share. L. D. Sherman & Co., New York, has withdrawn as underwriter.

• Fidelity Electric Co., Inc., Lancaster, Pa.
Nov. 19 (letter of notification) 30,000 shares of class B common. **Price** — $1 a share. No underwriting. The shares are being sold by B. E. Crispin and F. E. Crispin, both directors of the company.

Firemen's Insurance Co., Newark, N. J.
Nov. 12 filed 120,462 shares ($5 par) common. **Underwriter**—Blyth & Co., Inc., New York. **Offering**—Shares initially will be offered to stockholders on basis of two shares for each 31 shares held. Unsubscribed shares will be offered publicly. Price by amendment. **Proceeds**—To be added to company's capital and surplus.

Fischer Baking Co., Newark, N. J.
Nov. 17 (letter of notification) $299,000 5% cumulative non-voting preferred. **Price**—$100 per share. No underwriters. To refinance a part of corporate obligations and improve employee and employer relations.

Fraser Products Co., Detroit, Mich.
Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—$7 a share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds.

Gabriel Co., Cleveland
Oct. 24 (letter of notification) 10,000 shares ($1 par) common, on behalf of Wm. H. Miller, a director of the company, to be sold at market. **Underwriter**—Sills, Minton & Co., Chicago. Indefinitely postponed.

NEW ISSUE CALENDAR

November 28, 1947
Northwestern Public Service Co.__________Common

December 1, 1947
Seaboard Air Line RR., Noon (EST)___Eq. Tr. Ctfs.

December 2, 1947
Americana Furniture, Inc.__________Pfd. and Com.
Appalachian Electric Power Co., 11:30 a.m. (EST)__________Bonds
Mack Trucks, Inc.__________Common

December 4, 1947
Phillips Petroleum Co.__________Common

December 8, 1947
Central Maine Power Co.____Bonds and Common
Central Power & Light Co.________Bonds and Pfd.
Johnson Bronze Co.__________Common
Springfield Fire & Marine Insurance Co._Cap. Stk.

December 9, 1947
Cleveland Electric Illuminating Co.__________Bonds
Delaware Power & Light Co.__________Bonds
Georgia Power Co., 11 a.m. (EST)__________Bonds
Southern California Edison Co.__________Preferred

December 10, 1947
General Instrument Corp.__________Common
Pittsburgh Steel Co.__________Bonds
Reading Tube Co.__________Stocks
Sunray Oil Co.__________Debs. and Pfd.

December 11, 1947
Elliott Co.__________Preferred

December 16, 1947
Northern Natural Gas Co.__________Common

December 17, 1947
Northern Indiana Public Service Co.____Preferred

December 19, 1947
American Insurance Co.__________Capital Stock

● **Gatesville (Tex.) Industrial Foundation, Inc.**
Nov. 17 (letter of notification) L. K. Thomson, Jr., filing for Gatesville Industrial Foundation, Inc., preorganization subscriptions for 500 shares ($50 par) stock. **Price**—$50 a share. The shares will be sold through L. K. Thomson, Jr. To erect or repair buildings for industrial enterprises.

General Finance, Inc., Concordia, Kansas
Nov. 5 (letter of notification) $100,000 of 5% debenture notes. To be sold at face amount. **Underwriter**—Robert J. Long & Co., Abilene, Kansas. To pay off mortgage indebtedness and for working capital.

General Instrument Corp. (12/10)
Nov. 14 filed 150,000 shares of common (par $1). **Underwriter**—Burr & Co., Inc., New York. **Proceeds**—Stock being sold by four stockholders who will receive proceeds. Price by amendment.

Georgia Power Co., Atlanta (12/9)
Nov. 7 filed $10,000,000 30-year first mortgage bonds. Underwriting to be determined by competitive bidding. **Bids**—It is expected that the time for presentation and opening of proposals will be 11 a.m. (EST), Dec. 9. Probable bidders include: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Blyth & Co.; Smith, Barney & Co. and Kidder, Peabody & Co. (jointly); Lehman Brothers; Harriman Ripley & Co.; Goldman, Sachs & Co.; Lazard Freres & Co. and Equitable Securities Corp. (jointly); Shields & Co.; Drexel & Co.; The First Boston Corp. **Proceeds**—For construction program.

Gerity-Michigan Corp., Adrian, Mich.
Sept. 29 filed 40,049 shares ($1 par) common. **Underwriter**—Ames, Emerich & Co., Inc. and Dempsey & Co. Price based on market: $10-$10.50 per share. **Proceeds**—The shares are being sold for the account of James Gerity, Jr., company President.

Gulf States Utilities Co., Baton Rouge, La.
Nov. 13 filed 272,852 shares (no par) common. No underwriting. **Offering**—The shares will be offered to stockholders on the basis of one new share for each seven held. The Company also plans to sell privately 50,000 shares ($100 par) preferred $4.50 series. Price by amendment. **Proceeds**—For new construction.

● **Guyana Mines, Ltd., Toronto, Canada**
Nov. 26 filed 303,587 shares ($1 par) common. **Underwriting**—None. **Price**—50 cents a share. **Proceeds**—For equipment and working capital. **Business**—Mining business.

Hanson-Van Winkle-Munning Co., Matawan, N. J.
Oct. 30 filed 21,000 shares ($3.50 par) common. **Underwriting** — The registration said that "the initial public offering is being made by Van Winkle Todd, of Matawan, N. J., and Harry P. Barrand, of Stamford, Conn., as underwriters by sale on the over-the-counter market of 100 shares each at the market price at the time of sale. In the event that any of the holders of the warrants exchange any such warrants for other than investment and offer the shares received for public sale, such offerer may be deemed an underwriter as that term is defined in the Securities Act of 1933." **Offering**—The shares are to be issued upon exercise of warrants issued on June 28, 1946. **Price**—Warrant holders are entitled to purchase 21,000 shares of common at $12.875 a share on and after June 28, 1947 up to June 27, 1948, or $14 per share to June 27, 1949. **Proceeds**—For general corporate purposes.

Hawaiian-Philippine Co., Manila, P. I.
Sept. 24 filed 500,000 shares 7% cumulative preferred, par 10 Philippines pesos per share (currency basis one neco equivalent to 50 cents). **Underwriting**—No underwriting. **Offering**—For subscription by common stockholders on the basis of one share for each 1¼ shares owned. **Price**—$5 a share. **Proceeds**—For rehabilitation program.

Hickok Manufacturing Co., Inc., Rochester, New York
Sept. 19 filed 200,000 shares ($1 par) common. **Underwriter**—E. H. Rollins & Sons, Inc., New York. **Price**—By amendment. **Proceeds**—The shares are being sold by 36 stockholders who will receive proceeds. Offering postponed indefinitely.

Hilo (Hawaii) Electric Light Co.
Oct. 27 filed 25,000 shares ($20 par) common. **Underwriting** — None. Unsubscribed shares will be sold at auction after Dec. 22, when subscription warrants expire. **Offering**—For subscription to common stockholders on the basis of one share for each two held. Price at par. **Proceeds**—To repay bank loans and finance construction.

● **Horn & Hardart Co., New York**
Nov. 21 (letter of notification) 1,700 shares of common stock (no par). The stock is to be sold for the account of the estate of John Fritsche (deceased) to obtain funds with which to discharge estate taxes. Price and name of underwriter by amendment.

Illinois-Rockford Corp., Chicago
July 24 filed 120,000 shares ($1 par) common. Underwriters—Brailsford & Co., and Straus & Blosser, Chicago. Price—$9.25 a share. Proceeds—The shares are being sold by four stockholders and represent part of the stock the sellers will receive in exchange for their holdings of four furniture companies to be merged with the registrant. The merging companies are Toccoa Manufacturing Co. and Stickley Brothers, Inc., both Illinois corporations, and the Luce Corp. and Stickley Bros. Institutional Furniture Co., both Michigan corporations.

Indianapolis Power & Light Co.
Oct. 9 filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Names by competitive bidding. Probable bidders: Lehman Brothers; Blyth & Co., Inc.; W. C. Langley & Co. and White, Weld & Co. (jointly); Otis & Co. **Proceeds**—For new construction purposes.

Interstate Department Stores, Inc.
Oct. 30 filed $5,000,000 15-year sinking fund debentures. **Underwriter**—Lehman Brothers, New York. Price to be filed by amendment. **Proceeds**—To repay bank loans and for general corporate purposes including the financing of new stores.

Interstate Power Co., Dubuque, Iowa
May 13 filed $19,400,000 of first mortgage bonds, due 1977, and 2,132,223 shares ($3.50 par) capital stock. **Proceeds**—For debt retirement, finance new construction and for working capital. Bonds awarded Sept. 24 to Halsey, Stuart & Co. Inc. on bid of 101.90 for a 3½% coupon rate. Stock awarded Sept. 24 on bid of $4.05 per share to Lehman Brothers, Goldman, Sachs & Co. and Wertheim & Co. The SEC on Sept. 25 rejected the bid for the stock. The SEC in its decision declared the price offered for the stock "would not effectuate a reorganization plan which would be fair and equitable to the persons effected thereby." The SEC's action also held up the sale of the bonds.

● **Iris Oil Co., Denver, Colo.**
Nov. 17 (letter of notification) 50,000 shares ($1 par) capital stock. **Price**—$1 a share. No underwriting. For drilling expenses and general operating expenses.

● **Jefferson Islands Club, St. Mary's County, Md.**
Nov. 24 (letter of notification) 100 shares ($500 par) common and $100,000 of debentures. **Price**—$500 per common share. Debentures will be sold in denominations of $500 and $100. To erect new club house.

Johnson Automatics, Inc., Boston
Oct. 10 (letter of notification) 95,000 shares of common. To be sold at market. **Underwriter**—George F. Breen, New York. For additional working capital. Issue will be placed privately.

Johnson Bronze Co., New Castle, Pa. (12/8-12)
Nov. 10 filed 300,000 shares common stock (par 50¢). **Underwriter**—Lee Higginson Corp. **Proceeds** — Stock being sold for account of certain stockholders. **Business**—Manufacturer of bearings and bushings.

● **Lamston (M. H.), Inc., New York**
Nov. 19 (letter of notification) 600 shares of common stock (par $1). **Price**—$6 per share. **Underwriter**—First Colony Corp., New York. For account of Harold Stone.

Laurel (Md.) Harness Racing Association, Inc.
Oct. 23 filed $490,000 10-year 6% cumulative income debentures and 49,000 shares (1¢ par) common. No underwriting. **Price**—$1,001 per unit, consisting of $1,000 of debentures and 100 shares of common. Of the above $146,000 debentures and 14,600 common shares will be held by agent until lapse of escrow agreement. **Proceeds**—Proceeds will be put in escrow and will not be used before definite dates for a meet have been assigned to the association by the Maryland Racing Commission. Registration statement effective Nov. 20.

Legend Gold Mines, Ltd., Toronto, Canada
June 27 filed 300,000 shares ($1 par) common treasury stock. **Underwriting** — To be supplied by amendment. **Price**—50 cents a share. **Proceeds**—To develop mining properties.

Lock Nut Corp. of America
Oct. 6 (letter of notification) 24,000 shares of 5% cumulative convertible preferred stock (par $12.50). **Underwriter**—Ray T. Haas, Chicago. **Price**—$12.50 per share. General corporate purposes.

● **Lowenstein & Sons, Inc., New York**
Nov. 26 filed 20,000 shares ($1 par) common. **Underwriting**—None. **Offering**—Shares are being offered to certain officers and employees under an "employees stock option plan." **Price**—$21 a share. **Proceeds**—To be added to working capital. **Business**—Manufacture of cotton and rayon fabrics.

Mack Trucks, Inc., New York (12/2)
Nov. 13 filed 150,000 shares (no par) common. **Underwriters**—Hayden, Stone & Co., Adamex Securities Corp., both of New York. Price by amendment. **Proceeds**—To repay bank loans and for working capital.

Manhattan Coil Corp., Atlanta, Ga.
May 20 filed $500,000 5% serial debentures, due 1949-1957; 12,000 shares ($25 par) 5½% cumulative convertible preferred and 85,000 shares ($1 par) common. Underwriter—Kirchofer & Arnold, Inc., Raleigh, N. C. Price—The debentures at 102.507, while the preferred shares will be offered at par and the common shares at $4 each. Proceeds—To retire bank indebtedness and to finance purchase of machinery and other plant equipment.

● **Maryland Record Corp., Baltimore, Md.**
Nov. 20 (letter of notification) 500 shares 6% cumulative preferred. To be sold through officers of the company. **Price**—$100 a share. For business promotion and expansion.

● **Maule Industries, Inc., Miami Beach, Fla.**
Nov. 18 (letter of notification) 33,334 shares of capital stock being offered on behalf of the company and 66,666 shares of capital stock on behalf of selling stockholders. **Price** — $1.50 a share. **Underwriter** — Atwill and Co., Miami Beach, Fla. The company will use its proceeds to pay off loans.

● **McKay Davis Inc., Toledo, O.**
Nov. 17 (letter of notification) 28,000 shares (10 par) 5% cumulative preferred and 20,000 shares (no par) common. To be sold in units of seven shares of preferred and five shares of common for $75 per unit. **Underwriter**—Clair S. Hall & Co., Cincinnati, O. For working capital and general corporate purposes.

Middle States Telephone Co. of Illinois, Chicago
Nov. 7 (letter of notification) 13,125 shares of common. No underwriting. For additions and replacements to its property.

● **Nevada Exploration Co., Las Vegas**
Nov. 20 (letter of notification) 75,000 shares ($1 par) common. **Price**—$1 a share. No underwriting as yet. For drilling oil and gas wells.

New England Butt Co., Providence, R. I.
Oct. 22 (letter of notification) 1,000 shares (no par) common. **Price**—$100 a share. **Underwriter**—Barrett & Co., Providence, R. I. For purchase of machinery and equipment and for working capital.

● **New Orleans Public Service, Inc., New Orleans, Louisiana**
Nov. 20 (letter of notification) 9,707 shares of common. **Price**—$25 a share. No underwriting. To finance plant improvements and additions.

North American Oil Co., Baltimore, Md.
Nov. 7 (letter of notification) 25,000 shares of common. **Price**—90 cents a share. **Underwriter**—Henry White & Co., Baltimore, Md. For payment and development of mining lease.

Northern Indiana Public Service Co. (12/17)
Oct. 29 filed 272,694 shares ($20 par) cumulative preference stock. **Underwriters**—Central Republic Co. Inc., Chicago; The First Boston Corp., and Blyth & Co. Inc., New York. **Offering**—For subscription by common stockholders of record Dec. 2 on basis of one preferred share for each eight common shares held. Rights expire Dec. 16. Unsubscribed shares will be offered publicly. **Price**—$21 a share. **Proceeds**—To improve its public utility system.

Northern Natural Gas Co. (12/16)
Nov. 14 filed 710,500 shares of common stock (par $10). **Underwriters**—To be sold through competitive bidding. Probable bidders: Blyth & Co., Inc.; Dillon, Read & Co. Inc. **Proceeds**—Shares being sold by North American Light & Power Co. which will use proceeds to retire 109,255 shares of its own $6 preferred stock held by others than North American Co. **Bids**—Bids for purchase of stock tentatively set for Dec. 16.

Northwestern Public Service Co. (11/28)
Oct. 28 filed 82,000 shares ($3 par) common. **Underwriter**—A. C. Allyn & Co. **Offering**—Offered for sub-

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scription by stockholders on the basis of one share for each five shares held at $9.75 per share. Rights expire Nov. 26. Unsubscribed to public through underwriters. **Proceeds**—To be added to general funds.

Pathe Industries, Inc., Cleveland, Ohio

Oct. 31 (letter of notification) $300,000 of 5% convertible subordinated debentures, due 1957. **Underwriter**—Otis & Co., Cleveland. For additional working capital.

Peter Paul, Inc., Naugatuck, Conn.

Nov. 6 (letter of notification) 11,955 shares (no par) common, to be offered for subscription at $25 a share to present stockholders. No underwriting. For expansion and working capital.

Phillips Petroleum Co., New York (12/4)

Oct. 31 filed 1,007,517 shares (no par) common. **Underwriter**—The First Boston Corp., New York. **Offering**—Offered to common holders of record Nov. 19 in the ratio of one new share for each five held at $49 per share. Rights expire 3 p.m. Dec. 3. Unsubscribed shares will be offered publicly. **Proceeds**—To repay bank loans and for working capital.

● **Pittsburgh Steel Co. (12/10)**

Nov. 20 filed $6,500,000 of first mortgage bonds, due 1967. **Underwriters**—Kuhn, Loeb & Co.; A. G. Becker & Co., Inc. and Hemphill, Noyes & Co. Price by amendment. **Proceeds** — To refund outstanding first mortgage bonds. **Business** — Manufacturer of tubular, wire and semi-finished steel products.

● **Public Service Co. of New Hampshire, Manchester, N. H.**

Nov. 25 filed 139,739 shares ($10 par) common and $3,000,000 30-year series C first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp. and Coffin & Burr, Inc. (jointly); Equitable Securities Corp., Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly); Salomon Bros. & Hutzler, W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Halsey, Stuart & Co. Inc. (bonds only); Lazard Freres & Co. and White, Weld & Co. (jointly). **Offering**—Common stock first will be offered for subscription to present shareholders at the rate of one share for each five shares held. Unsubscribed shares and the bonds will be offered publicly. Price to be determined by competitive bidding. **Proceeds**—To pay off loans and for construction purposes.

Publix Shirt Corp., New York

Oct. 3 filed 140,000 shares ($1 par) common. **Underwriter**—Reynolds & Co., New York. Price by amendment. **Proceeds** — The shares are being sold by three stockholders who will receive proceeds. Offering indefinite.

● **Rawdon Brothers Aircraft, Inc., Wichita, Kansas**

Nov. 17 (letter of notification) 5,000 shares (no par) common. **Price**—$20 a share. No underwriting. For plant additions and working capital.

Reading (Pa.) Tube Co. (12/10)

Oct. 28 filed 200,000 shares (no par) 50¢ cumulative class A and participating stock, 50,000 shares (10¢ par) class B stock, and 50,000 shares class B stock issuable upon redemption of the class A stock. **Underwriter**—Aetna Securities Corp., New York. **Offering**—Class A stock will be offered publicly at $6 and class B stock will be sold to underwriters for investment at 10¢ per share. **Proceeds**—To pay bank loans. Statement effective Nov. 19.

● **St. Regis Paper Co., New York**

Nov. 26 filed 300,000 shares ($5 par) common. **Underwriting**—No underwriting. To be offered on New York Stock Exchange. **Price**—At market. **Proceeds**—Shares are being sold by Weco Corp., a wholly-owned subsidiary of Western Electric Co. **Business**—Company plans to discontinue production of newsprint at end of year and convert plant to production of higher grades of printing and publication paper.

● **Santiago-Alaska Mines, Inc.**

Nov. 19 (letter of notification) 30,000 shares ($1 par) common. **Price**—$2 a share. No underwriting. May be sold through brokers and salesmen later. For mining equipment and working capital.

● **Scudder, Stevens & Clark Fund, Inc., Boston, Mass.**

Nov. 21 filed 60,000 shares of capital stock. **Underwriter**—Scudder Fund Distributors, Inc., Boston. Price based on market prices. **Proceeds**—For investment. **Business**—Investment business.

● **Seiberling Rubber Co., Akron, Ohio**

Nov. 21 (letter of notification) 4,500 shares of common being offered by T. K. Seiberling and L. M. Seiberling as executors of the estate of C. W. Seiberling, deceased. To be offered at market price. No underwriting.

Sherer-Gillett Co., Marshall, Mich.

Oct. 24 (letter of notification) 10,000 shares ($1 par) common. **Price**—$6.50 a share. **Underwriter**—First of Michigan Corp., Detroit. For construction purposes and for working capital.

Silver Buckle Mining Co., Wallace, Idaho

Oct. 13 (letter of notification) 1,500,000 shares of (10c par) stock. **Price**—20 cents a share. **Underwriters**—F. E. Scott. Pennaluna & Co., J. E. Scott and Morris George, all of Wallace, Idaho, and John Erickson and Harold Gribble, both of Mullan, Idaho. For mine development.

● **Silver Crown Mines, Inc., Silverton, Colo.**

Nov. 20 (letter of notification) 50,000 shares ($1 par) common. **Price**—$1 a share. **Underwriter**—Lewis F. Pease, Limon, Colo. For mine exploration and development.

Silverore Mines, Inc., Wallace, Idaho

Oct. 28 (letter of notification) 1,345,000 shares of common. Company is selling 1,000,000 of the total and the balance is being sold by four stockholders. **Price**—15¢ a share. The company will offer the securities directly with the aid of L. E. Nicholls & Co. and W. T. Anderson, both of Spokane, Wash., as underwriters. The company will use its proceeds for mining operations.

Southern California Edison Co. (12/9)

Nov. 18 filed 800,000 shares cumulative preferred stock (par $25). **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Blyth & Co., Inc. **Proceeds**—Repayment of current bank loans and reimbursement for expenditures for property and construction. **Bids**—Bids for purchase of stock tentatively set for Dec. 9.

Southwest Natural Gas Co., Shreveport, La.

Oct. 20 (letter of notification) 25,000 shares of common on behalf of R. M. Craigmyle, President of the company. To be sold at market. **Underwriter**—Craigmyle, Pinney & Co., New York.

Southwestern Gas & Elec. Co., Shreveport, La.

Nov. 5 filed $7,000,000 30-year first mortgage bonds, series B. **Underwriting**—To be determined at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Lehman Brothers and Lazard Freres & Co. (jointly); White, Weld & Co. and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Harriman, Ripley & Co. **Proceeds**—To finance construction program.

Springfield Fire & Marine Insurance Co. (12/8)

Oct. 29 filed 200,000 shares ($10 par) capital stock. **Underwriters**—The First Boston Corp., and Kidder, Peabody & Co., New York. **Offering**—Offered to stockholders of record Oct. 6 at $38 per share on the basis of one share for each 2½ shares held. Rights expire 3 p.m. Dec. 5. Unsubscribed shares will be sold publicly. **Proceeds**—To be added to company's capital funds.

Stanwood Oil Corp., New York

Nov. 12 (letter of notification) $200,000 of Series A 5% notes and 10,000 shares (no par) common. **Price**—$100 per note. Five shares of common will be issued with each $100 principal amount of notes. **Underwriter**—E. J. Drake, New York. To pay indebtedness and for working capital.

Steam Motive Power, Inc., Mishawaka, Ind.

Nov. 14 (letter of notification) 60,000 shares ($1 par) class A common. **Price**—$5 a share. **Underwriters**—Harrison & Austin, Inc.; Ferron R. Davis, Inc.; and Herbert S. Wolff Securities Co., all of South Bend, Inc. To organize business and for working capital.

● **Sterling Engine Co., Buffalo, N. Y.**

Nov. 25 (letter of notification) 5,000 shares of capital stock (par $1). **Price**—Approximately $2.50 per share. To be sold on New York Curb Exchange by A. G. Becker & Co. Stock being sold on behalf of Addison F. Varo.

Sterling Engine Co., Buffalo, N. Y.

Nov. 5 (letter of notification) 5,000 shares of common on behalf of Addison F. Vars, board Chairman. To be sold at market through A. G. Becker & Co. as agents.

Strong Manufacturing Co., Sebring, Ohio

Nov. 12 (letter of notification) 3,674 shares (no par) common. **Price**—$10 a share. **Underwriter** — Gunn, Carey and Co., Cleveland. For operating expenses.

Sunray Oil Corp. (12/10)

Nov. 12 filed $40,000,000 20-year debentures and a new issue of cumulative convertible second preferred stock, series of 1947 (par $100). The interest rate of the debentures and the dividend rate of the second preferred stock will be filed by amendment. **Underwriters**—Eastman, Dillon & Co. heads a group of underwriters. **Purpose**—To financing merger of Pacific Western Oil Corp. and Mission Corp. into Sunray.

Thornton Lumber Co., Ravalli, Mont.

Oct. 27 (letter of notification) 1,152 shares ($100 par) common and 1,848 shares ($100 par) 6% cumulative preferred. To be sold at par. **Underwriter**—L. A. Donahue, Billings, Mont. For payment of liabilities and construction of mill.

● **Transcon Lines, Los Angeles**

Nov. 19 (letter of notification) 10,000 shares ($10 par) common. **Price**—$10 a share. To be sold through officers of the company. **Proceeds**—To purchase equipment.

Union Bag & Paper Corp., New York

Nov. 12 filed 211,861 shares (no par) capital stock. **Underwriter**—Morgan Stanley & Co., New York. **Offering**—Shares will be offered to stockholders on basis of one share for each six held of record Dec. 1. Rights expire Dec. 16. Price by amendment. **Proceeds**—To finance new construction.

● **United Engineering & Foundry Co., Pittsburgh**

Nov. 21 (letter of notification) 5,625 shares of common stock (par $5). **Price**—$38 per share. To be offered for sale to not over 200 employees of the company.

Washington (D. C.) Gas Light Co.

Nov. 7 filed 85,000 shares (no par) common. No underwriting. **Offering**—The shares will be offered for subscription to common stockholders on the basis of one share for each five held. **Price**—$20 per share. **Proceeds**—To be added to general funds for current construction program.

Western Light & Telephone Co., Inc., Kansas City, Kansas

Nov. 6 (letter of notification) 10,000 shares of 5% cumulative preferred. **Price**—$28 a share. **Underwriters**—The First Trust Co. of Lincoln, Neb., and Harris, Hall & Co. (Inc.), Chicago. For expansion of plant facilities.

● **Western World Industries, Inc., Salt Lake City**

Nov. 20 (letter of notification) 70,000 shares (20¢ par) common. **Price**—30 cents a share. To be sold through officers of company. For equipment and working capital in connection with mining property.

White Motor Co., Cleveland, O.

Oct. 28 filed 275,000 shares ($1 par) stock. **Underwriter**—Hornblower & Weeks, New York. **Offering**—Proposed offering postponed indefinitely according to an announcement Nov. 17.

Wisconsin Central Airlines, Clintonville, Wis.

Nov. 18 filed 125,000 shares ($1 par) common. **Underwriter**—Loewi & Co. **Price**—$4 a share. **Proceeds**—To purchase aircraft, repay notes and for working capital. **Business**—Air transportation.

Prospective Offerings

● **Allegheny Ludlum Steel Corp.**

Jan. 26 stockholders will vote on authorizing an issue of 200,000 shares of preferred stock. If approved, company plans to register 107,333 shares and offer rights to stockholders in ratio of one for 12. Probable underwriter, The First Boston Corp.

● **Cincinnati Gas & Electric Co.**

Nov. 20 company requested SEC permission to sell 204,000 additional shares of common stock (par $8.50) to holders of outstanding common some time in January, 1948, at the rate of one new share for each 10 held. Proceeds for construction.

● **Consolidated Edison Co. of New York, Inc.**

Nov. 25 company postponed indefinitely its proposal to refund present preferred stock. The refunding was to have been financed by the issuance Feb. 2 of 1,750,000 new preferred shares and $57,382,600 of convertible debentures. Postponement was attributed to unsatisfactory market conditions, interference of the holiday season and the tightness of the time schedule required to consummate a transaction of this size. The earliest possible date for putting through the preferred refunding now is May 1, 1948.

● **International Harvester Co.**

Nov. 22, in statements mailed to stockholders, company discloses that new financing is planned in an amount "less than $100,000,000." A special stockholders' meeting will be called to approve the program. The specific request will be for authorization of an issue of convertible debentures. This will give company three methods by which funds could be raised, in accordance with market conditions. The methods are sale of authorized but unissued common, sale of non-convertible debentures and sale of convertible obligations. Probable underwriters: Glore, Forgan & Co.; Harris Hall & Co. (Inc.), and William Blair & Co.

● **New Orleans Public Service Co.**

The SEC on Nov. 21 authorized the company, a subsidiary of Electric Power & Light Co., to offer common holders the right to purchase 199,642 additional shares (no par) common stock in the ratio of 26½ shares for each 100 shares held, at $25 a share. Parent, which owns 716,736 common shares of New Orleans, intends to purchase its proportionate share of new common. Proceeds will be used to finance company's construction program.

Seaboard Air Line R. R. (12/1)

Bids will be received up to noon Dec. 1 (EST) at office of Willkie, Owen, Farr, Gallagher & Walton, 15 Broad Street, New York, for the sale of $7,500,000 equipment trust certificates, due $500,000 annually Dec. 15, 1948-1962. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

Our Reporter's Report

When the Appalachian Electric Power Co.'s new preferred stock comes to market after the turn of the month, as now scheduled, the capital market will be treated to something in the way of an innovation.

The issue is small in itself, only $7,500,000 but its importance, as a possible guide to the future of financing through preferred stock is not to be found in its proportions. Rather it revolves around a new feature which is involved, namely the setting up of an annual sinking fund to retire the issue in a given time.

Until now, at least in the case of utility operating companies, features of this nature have been designed for debentures and bonds, in other words for debt securities. Its introduction as a feature in the sale of a senior equity should add to the attractiveness of the issue and could, of course, mark the start of a new era in the method of raising utility capital by this means.

The sinking fund is fixed to provide for retirement of the bonds through the setting aside of the equivalent of 2% of the issue annually.

Those who have watched the behavior of the market in recent months and witnessed first one and then another potential issuer either postpone or abandon preferred stock capital plans, will be watching this venture closely.

It could lead to the introduction of other such features in an effort to get the senior equity market off the dead-center on which it appears to be hung at the moment.

The Market's Position

There is nothing fundamentally wrong with the new issue market, in the opinion of underwriting interests who are in a position to judge the situation closely. Rather according to one of their number, the principal difficulty is with potential issuers themselves.

The major drawback, in this expert's opinion, is the disposition of corporate borrowers to "crowd" the market. That is to seek to complete their financing in one sweeping operation instead of splitting it up into reasonable-sized deals.

Under competitive bidding he feels also that there is a tendency on the part of corporate finance officers to assume pre-emptive rights in the market. That is to disregard the other people who might have business in hand.

Cities Approaching Situation

To make his point, the aforementioned banker called attention to the piling up of issues for bids a fortnight hence.

Turning to the "futures' calendar" he picked out Dec. 9 as a case in point, noting that bankers are being asked to bid for three issues, involving $40,000,000 within the space of an hour.

At 11 a.m. on that day, the Georgia Power Co. will open bids on $10,000,000 of new first mortgage bonds. At noon, an hour later, bids will be opened by Cleveland Electric Illuminating Co. for an issue of $20,000,000 first mortgage bonds while simultaneously Delaware Power & Light Co. will be considering tenders for $10,000,000 of its first mortgage collateral trust bonds, due 1977.

More Postponements

Prospective new issues for the immediate future were cut back materially this week as several more companies decided to postpone contemplated offerings.

Largest of these, of course, was Consolidated Edison Co. of N. Y. Inc., which called off, from Feb. 2 until some time after next May 1, projected refinancing of its outstanding preferred stock.

This involved the sale of 1,750,000 new preferred shares and $57,382,600 of convertible debentures. The company cited the prevailing market conditions, the holiday season and the tightness of the schedule to complete necessary formalities.

Meanwhile offering of $5,000,000 of sinking fund debentures of Interstate Department Stores has been set back temporarily and the Triborough Bridge and Tunnel Authority has decided to postpone its proposed financing which ultimately will involve $120,000,000.

NYSE Members Reject Permissive Incorporation

By vote of 834 to 344, proposal to admit corporations to membership was disapproved, despite endorsement by President Emil Schram and Robert P. Boylan, Chairman of the Board of Governors.

The proposed amendment to the New York Stock Exchange Constitution providing for the permissive incorporation of member firms of the New York Stock Exchange and the admission of corporations, under prescribed restrictions, as member corporations, submitted for balloting to the membership on Nov. 7 by the Board of Governors, without its approval or disapproval, has been disapproved by a majority of the 1180 ballots cast, according to a statement released by the Exchange on Nov. 20. The vote was 344 approving; 835 disapproving; one blank or defective.

The vote is a new high record in number of ballots cast on a proposed constitutional amendment. The previous record, 1,131, was established Oct. 31 when the adjusted commission schedule was approved by the membership.

In making public the results of the balloting, Emil Schram, President of the New York Stock Exchange, who along with Robert P. Boylan, the Chairman of the Board of Governors had endorsed the proposition, stated: "As one who endorsed the permissive incorporation proposal as a constructive step, my only comment is that the members have made their decision."

The proposal to admit corporations to membership has been under discussion for several years and has stirred bitter debate on the issue, as shown in past issues of the "Chronicle." The group opposing the measure was fearful that undesirable additions might be made to the membership. They argued that the strict, unlimited liability of the partnership form gave greater and more effective control over membership activities. The advocates argued there would be the advantages of tax savings to firms, if they were permitted to incorporate.

American Motors Stock Offered at $3 per Share

Public offering of 38,000 shares of capital stock of American Motors, Inc., at $3 per share was made November 26 by Frank C. Moore & Co., New York. Proceeds from the sale will be added to working capital.

According to the offering circular, the company was incorporated in February of 1947 for the purpose of developing, producing, distributing and selling light weight automotive vehicles. Its principal product is a one-half ton capacity delivery truck to be marketed under the name of "Delcar." Expected to sell at a price between $850 and $950, f.o.b. Troy, New York, where the company's plant is located, the "Delcar" will weigh approximately 1,600 pounds compared with a net weight of between 2,500 and 3,000 pounds for the conventional delivery truck of the same size, the circular states.

Oldaker Trading Mgr. For Greenfield, Lax

Alfred E. Oldaker is now Manager of the trading department of Greenfield, Lax & Co., Inc., 40 Exchange Place, New York City. Mr. Oldaker was formerly with J. F. Reilly & Co. and prior thereto was with Peter P. McDermott & Co.

B. C. Christopher Co. to Become NYSE Members

KANSAS CITY, MO.—With the acquisition by Lewis C. Herwig of the New York Stock Exchange membership of the late Howard P. Armstrong, B. C. Christopher & Co., Board of Trade Building, will become members of the Exchange. The firm already holds membership in the Chicago Stock Exchange and Chicago Board of Trade.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of Milton F. Untermeyer to Richard R. Jackman will be considered by the Exchange on December 11. It is understood that Mr. Jackman will act as an individual floor broker.

To Be White, Weld Partner

Transfer of the Exchange membership of Francis M. Weld to David Weld will be considered by the Exchange on December 11. David Weld will become a partner in White, Weld & Co.

Weston W. Adams to Be New York Exch. Member

BOSTON, MASS.—Weston W. Adams, member of the Boston Stock Exchange and senior partner of Weston W. Adams & Co., 55 Kilby Street, will acquire the New York Stock Exchange membership of Cornelius R. Love, Jr. on December 11.

Admits Partner

STOCKTON, CALIF. — Philip D. Piltz has been admitted to partnership in the firm of Holmes & Sandman, Bank of America Building. Mr. Piltz was previously with Walston, Hoffman & Goodwin.

SITUATIONS WANTED

Junior Security Analist

Young college graduate, accounting major, with 1½ years' experience in public accounting and financial statistical work desires position as junior security analyst. Please address Box H 1113, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

Trader Available

Eighteen years experience. Has accounts, both listed and over-the-counter. Well known to New York and Out-of-Town Traders. Salary and Commission. Box M1127, Commercial & Financial Chronicle, 25 Park Pl., New York 8, N. Y.

DIVIDEND NOTICES

THE ALABAMA GREAT SOUTHERN RAILROAD COMPANY

New York, N. Y., November 25, 1947.

A dividend of $3.00 per share on the Preferred Stock of The Alabama Great Southern Railroad Company has been declared payable December 24, 1947, to stockholders of record at the close of business December 4, 1947.

A dividend of $3.00 per share on the Ordinary Stock has been declared payable December 24, 1947, to stockholders of record at the close of business December 4, 1947.

J. J. MAHER, Secretary.

AMERICAN POWER & LIGHT COMPANY
Two Rector Street, New York, N. Y.

PREFERRED STOCK DIVIDENDS

A dividend of $1.50 per share on the Preferred Stock ($6) and a dividend of $1.25 per share on the $5 Preferred Stock of American Power & Light Company were declared on November 25, 1947, for payment January 2, 1948, to stockholders of record at the close of business December 8, 1947.

D. W. JACK, Secretary and Treasurer.

ANACONDA COPPER MINING CO.
25 BROADWAY

New York 4, N. Y., November 26, 1947

DIVIDEND NO. 158

The Board of Directors of the Anaconda Copper Mining Company has declared a dividend of One Dollar ($1.00) per share on its capital stock of the par value of $50 per share, payable December 23, 1947, to holders of such shares of record at the close of business at 3 o'clock P. M. on December 5, 1947.

C. EARLE MORAN, Secretary & Treasurer

J. I. Case Company
(Incorporated)

Racine, Wis., November 26, 1947.

A dividend of $1.75 per share upon the outstanding Preferred Stock of this Company has been declared payable January 1, 1948, and a year-end dividend on Common Stock of 80c per share has been declared payable January 1, 1948, to holders of record at the close of business December 12, 1947.

WM. B. PETERS, Secretary.

Allied Chemical & Dye Corporation
61 Broadway, New York

November 25, 1947

Allied Chemical & Dye Corporation has declared quarterly dividend No. 107 of One Dollar and Fifty Cents ($1.50) per share on the Common Stock of the Company, payable December 20, 1947, to common stockholders of record at the close of business December 5, 1947.

W. C. KING, *Secretary*

ACF

AMERICAN CAR AND FOUNDRY COMPANY

30 CHURCH STREET
NEW YORK 8, N. Y.

There has been declared a dividend of one and three-quarters per cent (1¾%) on the preferred stock of this Company outstanding, payable December 15, 1947, to the holders of record of said stock at the close of business December 4, 1947.

Transfer books will not be closed. Checks will be mailed by Guaranty Trust Company of New York.

CHARLES J. HARDY, *Chairman*
HOWARD C. WICK, *Secretary*

November 20, 1947

BORDEN'S 1857

Borden's

DIVIDEND No. 151

The final dividend for the year 1947 of seventy-five cents (75¢) per share has been declared on the capital stock of *The Borden Company*, payable December 20, 1947, to stockholders of record at the close of business December 3, 1947.

E. L. NOETZEL

November 25, 1947 *Treasurer*

DIVIDEND NOTICES

KENNECOTT COPPER CORPORATION
120 Broadway, New York 5, N. Y.

November 21, 1947

A cash distribution of twenty-five cents (25c) a share and a special cash distribution of one dollar and fifty cents ($1.50) a share have today been declared by Kennecott Copper Corporation, payable on December 22, 1947 to stockholders of record at the close of business December 1, 1947.

A. S. CHEROUNY, *Secretary.*

OFFICE OF NORTHERN STATES POWER COMPANY (WISCONSIN)

The Board of Directors of Northern States Power Company (Wisconsin), at a meeting held on November 18, 1947, declared a dividend of one and one-quarter per cent (1¼%) on the Preferred Stock of the Company, payable by check December 1, 1947, to stockholders of record as of the close of business November 20, 1947, for the quarter ending November 30, 1947.

N. H. BUCKSTAFF, Treasurer.

St. Louis, Rocky Mountain & Pacific Co.

Raton, New Mexico, November 13, 1947

COMMON STOCK DIVIDEND NO. 95

The above Company has declared a dividend of 50 cents per share on the Common Stock of the Company to stockholders of record at the close of business December 1, 1947, payable December 15, 1947. Transfer books will not be closed.

P. L. BONNYMAN, Treasurer.

SOUTHERN PACIFIC COMPANY
DIVIDEND NO. 120

A QUARTERLY DIVIDEND of One Dollar ($1.00) per share on the Common Stock of this Company has been declared payable at the Treasurer's Office, No. 165 Broadway, New York 6, N. Y., on Monday, December 22, 1947, to stockholders of record at three o'clock P. M., on Monday, December 1, 1947. The stock transfer books will not be closed for the payment of this dividend.

J. A. SIMPSON, Treasurer.

New York, N. Y., November 20, 1947.

TEXAS GULF SULPHUR COMPANY

The Board of Directors has declared a dividend of 50 cents per share and an additional dividend of $1.25 per share on the Company's capital stock, payable December 15, 1947, to stockholders of record at the close of business November 28, 1947.

W. ATTWOOD, *Assistant Treasurer.*

TC TENNESSEE CORPORATION

TENNESSEE CORPORATION

A dividend of 25¢ per share has been declared, payable December 18, 1947, to stockholders of record at the close of business December 3, 1947.

An extra dividend of 25¢ per share has been declared, payable January 9, 1948, to stockholders of record at the close of business December 3, 1947.

61 Broadway
New York 6, N. Y.
November 18, 1947.

J. B. McGEE
Treasurer.

IRVING TRUST COMPANY

One Wall Street, New York

November 26, 1947

The Board of Directors has this day declared a quarterly dividend of 15 cents and an extra dividend of 20 cents (total 35 cents) per share on the capital stock of this Company, par $10., payable January 2, 1948, to stockholders of record at the close of business December 12, 1947.

STEPHEN G. KENT, *Secretary*

CSC

COMMERCIAL SOLVENTS
Corporation

DIVIDEND No. 52

A dividend of thirty-seven and one-half cents (37½c) per share and a year-end dividend of twenty-five cents (25c) per share have today been declared on the outstanding common stock of this Corporation, both payable on December 22, 1947, to stockholders of record at the close of business on December 3, 1947.

A. R. BERGEN,
Secretary.

November 26, 1947.

Washington... And You

Behind-the-Scene Interpretations from the Nation's Capital

What's taking place before your very eyes, ladies and gentlemen, is the most earnest, ardent, and sincere political wrestling match you have probably witnessed on a national scale in just about a generation.

President Truman's "all the way toward inflation control" message was like the first throw. The Republicans hit the mat. They were groggy. From then on, however, anything reminiscent of a phony war or a boxing match between gentlemen was ended. This fight is on the level. Nothing is fixed. It will be a dirty match. Perhaps other fights have seen dirtier tactics, when one of the guys carried a preponderance of weight. This time the contestants are more evenly matched. Figurative gouged eyes or torn ears are to be expected.

* * *

The lesson on this so far as legislative prospects, taxes, foreign aid — everything — is that anything goes. The two contestants may glare at each other awhile and spar. Then one of them suddenly will try to pull the legs out from under the other. That is just about what happened with the President's Congressional message.

* * *

Republicans thought they had it all doped out what Truman would do. Truman was going to have a limited anti-inflation program, something that would show that his heart was for the voter. This program wouldn't amount to much. It would answer the need for "doing something." It wouldn't hurt the country too much.

Republicans were elated. They would adopt the Truman program, since it wouldn't hurt the country too much and it wouldn't do any good. Then they would have old Harry right flat on his back. They could blame him for the high cost of living. Trouble was that the Republicans talked. Not to many people, not for many newspapers, but they talked. Mr. Truman read it. He didn't go for that one. He fooled, not only his own aides, but the Grand Old Party as well.

* * *

So instead the President plopped his "all the way toward inflation control" baby on the Congressional lap. Nobody above the mental age of 12 believes that Mr. Truman expected such a sweeping program to be accepted, and nobody above the age of eight around here thinks Mr. Truman sincerely believes in such a program. But the extreme approach beat the Republicans to the trap lines. Mr. Truman believes that he instead has set the trap. With or without retching, the Congressional majority could not swallow his entire program. So the President thinks in '48 he can blame Congress for the H. C. of L.

* * *

This is typical of what is going to happen. Nobody around here is going to guide his actions mainly for the sake of sweet loveliness and the social good. For the moment, Republicans are committed to holding down the special session to stopgap foreign aid and anti-inflation. They retreated to this limit when Mr. Truman said he would not press for final action during the special session on long-term foreign aid.

* * *

These prospects are always subject to change and without notice. If the GOP sees a chance where, by a little fast footwork, it can slip through the $4 billion tax cut in the special session, look for it. Or if Mr. Truman can pull the chair out from under Congress by pushing long-term foreign aid, he will do it. All big legislative prospects are purely provisional in this political wrestling match.

* * *

Republicans are showing some surprising signs of ill-humor. They feel that Mr. Truman "done 'em wrong" by surprising them with the anti-inflation proposals. They shouldn't cry so early in the match for such a little matter as a bloody nose when they were fixing to land one on Harry, but missed. Some of the same Republicans who used to berate Mr. Roosevelt for his "uptown, ready-made drafts" of bills are now wishing in private that the President would submit them now, so they could see just how far he would go toward restoring controls and how much discretion he would allow himself. They would like to see such brain-trust bills, now, when they have the majority to stop them. Then they would have additional ammo to use against the White House man.

* * *

There was also the GOP member of Congress. He said if Truman really wanted to restore consumer credit controls, why didn't he do it himself by using the emergency powers of the pertinent act. That also is a bit on the humorless side, for solely to restore controls under the applicable act, the President would have to declare a new national emergency or start a military war.

* * *

Republicans have not as yet worked out their answer to the Truman strategy. More particularly, they have not yet firmed on what they want to do about this inflation thing. Senator Taft may about have hit it on the head by ruling out the bottom three-fourths of the Truman program and guessing the top fourth would slip through Congress. But even that is doubtful.

* * *

It also is a pretty safe bet that Republican thinking on their anti-inflation program will not jell, or at least harden, for weeks. Bear this in mind in spite of all the talking. There is plenty of time to work this out next year. Even if a course of 90 degrees is set now, don't be surprised if the ship heels to and turns to 180 degrees before winter is over.

However, Republican strategy will not shift so sharply as to envelop rationing and price controls, under circumstances now imaginable.

* * *

One of the greatest weaknesses in the present match of the Republican high command is its Senate Banking Committee. This committee consists in large part of amateurs who haven't played the legislative-financial game long. The committee is headed by Chairman Toby of New Hampshire, who is probably the Senate's most noted prima donna. He seldom gets along with his committee and he likes left-wing bills. It is this committee which eventually will get the major part of the subject matter of the President's anti-inflation program, to pass or pigeonhole.

* * *

Last session, Republicans in Congress as a whole got along with banking matters by virtue of the fact that Chairman Jesse P. Wolcott of the House Banking Committee had brains enough to steer legislative matters for both committees, even if the Senate Banking Committee was unconscious thereof.

* * *

Note—Wolcott, in his speech before the Economic Club of New York, (published in today's "Chronicle") announced the killing of the Federal Reserve proposal to guarantee small business loans. The Reserve Board request for power to guarantee business loans, Wolcott said, "seems somewhat inconsistent with the policy of the President to contract credit. For this reason the power to guarantee loans probably will not be given to the Federal Reserve system at the next regular session of Congress."

* * *

Watch for the Republican leadership to quietly drop the funny "legislative budget" provision of the 1946 Congressional Reorganization Act. This provision was adopted out of pure theory, even though plausible. The theory was that by Feb. 15 of each year, the Congress should register a "legislative budget" complete with a ceiling on appropriations. It was this provision, new in 1947, which helped put the Congressional majority in such a silly position with predictions of from $4.5 to $6 billion of expenditure cuts.

* * *

Under the legislative budget Congress theoretically is "required" to set the overall spending and revenue program by Feb. 15. So the majority had to go out on a limb on prospective cuts. House members resolved in favor of a budget $6 billion less than the President's budget; the Senate for $4.5 billion less. The issue went to conference, and died there. In other words, the fancy new "legislative budget" did not work. And it can't work, so long as the Executive establishment fails to cooperate, as it does, with Congress.

* * *

It is probable that if they can get by with it, the Republicans will just forget about the legislative budget this year. There is nothing in the law to compel them to follow the 1946 procedure, for one Congress (two years ago) cannot bind another (present) Congress to adopt its rules. Democrats may be expected to remind the Republicans of their remissness when they try to forget about the legislative budget. The majority will respond that their problem of framing foreign aid makes it impracticable to fix an overall national budget as early as Feb. 15 this year.

* * *

Canada's drastic import restrictions and prospective Export-Import bank credit of $300 million just put the Dominion mid way into the problem of balancing her U. S. dollar payments. What Canada awaits is the development of a U. S. buying program which will place the Dominion in U. S. funds just like the Hyde Park Agreement did during the last war by the U. S. paying for American components of Canadian lend-lease.

* * *

Should Congress fail to kick in the money for heavy buying of Canadian materials, all or part of the drastic restrictions on imports from the U. S. may remain indefinitely. Should Congress fail to solve Canada's U. S. dollar problem, some other things might happen.

* * *

Republican leaders may over-rule Chairman Harold Knutson of the Ways and Means Committee on the matter of raising the exemptions under the personal income tax. Knutson is bitterly opposed to raising the exemptions. He is the one man who sees clearly that confiscatory taxes in the upper brackets will, if retained, eventually sap the American enterprise system. However, in a political wrestling match if raising the personal exemptions $100 and releasing six million persons from tax liability will get some individual income tax relief enacted in the face of Truman-left-wing opposition, it may be worth the compromise, in the opinion of leaders.

* * *

Consistency note—Before meeting at 10:30 one morning to start hearings on inflation control the Senate Banking Committee approved the release of an additional $1 billion of authority for the Federal Housing Administration to insure loans under Title VI. What the committee did thus was to add $1 billion of home real estate loans which could be made at "necessary current costs," rather than at more conservative, long-run values.

* * *

Likewise, by promptly approving this money, the Senate committee saved the Administration from having to show to the Senate, at least, its inconsistency about the inflation issue. With a hearing the committee could have brought out that by favoring more Title VI money the Administration was favoring continuance of inflationary lending on real estate while purporting to oppose such lending in other fields.

BUSINESS BUZZ

"He wants a beer with the head on the bottom."

Albert Knies Joins A. M. Kidder & Co.

A. M. Kidder & Co., One Wall Street, New York City, members of the New York Stock Exchange, announce that Albert S. Knies is now associated with the firm. Mr. Knies was formerly Vice President of Lester & Co., in charge of their New York office, and prior thereto conducted his own investment business.